BACK TO BASICS: SOCIAL SECURITY OFF-BUDGET AND INDEPENDENT

HEARING

BEFORE THE

SELECT COMMITTEE ON AGING
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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BACK TO BASICS: SOCIAL SECURITY OFF-BUDGET AND INDEPENDENT

MONDAY, SEPTEMBER 9, 1985

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON AGING,
Washington, DC.

The select committee met, pursuant to notice, at 2 p.m., in room 210, Cannon House Office Building, Hon. Edward R. Roybal (chairman of the committee) presiding.

Members present: Representatives Roybal, Pepper, Frank, Crockett, Robinson, Stallings, Rinaldo, Snowe, Courter, Meyers, Blaz, and Swindall.

Staff present: Fernando Torres-Gil, staff director, and Paul Schlegel, minority staff director, of the Select Committee on Aging; Geo. Allen Johnston, staff director, Lowell Arye, research assistant, Deborah Weisberg, research assistant, and Tara Bell, intern, of the Subcommittee on Retirement Income and Employment; Barbara Kaplan, minority staff director, Subcommittee on Human Services, and Janet Porush, minority staff assistant, Subcommittee on Housing and Consumer Interests.

OPENING STATEMENT OF CHAIRMAN EDWARD R. ROYBAL

The CHAIRMAN. The committee will come to order.

May I welcome each and every one of you to the hearing this afternoon. This is a very important hearing in which we will hear testimony favoring the removal of Social Security from the unified budget, and establishing Social Security Administration as an independent agency.

We have two objectives today: The first is to express our agreement with the President's new assessment that the Senate's proposal to reduce COLA's is a bookkeeping gimmick that will not reduce deficits.

We are glad he recognizes that Social Security has a surplus, and we welcome his support of our longstanding effort to take Social Security out of the unified budget.

Second, we want to emphasize that protecting Social Security benefits is one-half of the battle to protect the rights of the Social Security taxpayers and beneficiaries. We must also protect the Social Security Administration's integrity by reestablishing Social Security as an independent agency.

Unfortunately, the administration up to this time still opposes independence for Social Security, and we are still faced with an administration request to cut Social Security by 21 percent.

Steep cuts in staff together with the closing of hundreds of local Social Security offices could cripple the Social Security Administration's ability to administer its vast programs. Since every dollar of the Social Security administrative expenses are paid by the Social Security trust funds, these proposed cuts are just as much of a bookkeeping gimmick as cutting Social Security's benefits.

In the House, we have a consensus bill to create an independent Social Security agency headed by a three-member Social Security Board, as it was during the Roosevelt years.

This bill, H.R. 825, has broad bipartisan support. We hope that the President withdraws his administration's request to reduce Social Security staff, and also its services, and that he instead endorse H.R. 825.

Unfortunately, the administration's representatives have decided not to testify at today's hearings. Given the importance of this issue, I am sending letters to the Secretary of Health and Human Services and to the Acting Director of the Office of Management and Budget, renewing my invitation to testify before this committee on another day.

Mr. Rinaldo, the ranking minority member on this committee, is on his way, but I think I should point out to those that are assembled, that Mr. Rinaldo has in fact sponsored a very important bill, and that he has given arguments in favor of removing Social Security from the unified budget, and that those arguments were printed in the August 14 issue of the Christian Science Monitor.

I commend that article to you for reading the very excellent arguments that Mr. Rinaldo has made in support of his position.

Before I recognize the present ranking member, I would like to submit my own statement for the record, as well as other staff data for the hearing appendixes. Now, I would like to recognize Mr. Tony Robinson first. Do you have anything you would like to propose at this time?

Mr. ROBINSON. Thank you, Mr. Chairman.

On behalf of all the current Social Security recipients, and those who hope to be on the rolls in the future, I want to thank you for having this hearing today.

I would like to submit for the record a lengthy statement, and I would ask that it be accepted.

The CHAIRMAN. Without objection. Your statement, along with the statements of any other members who wish to submit them, will appear at this point in the hearing record.

We do that in order to expedite the hearing.

[The prepared statements of Representatives Roybal, Pepper, Robinson, Borksi, Stallings, Manton, Oakar, and Bill Young follow:]

PREPARED STATEMENT OF CHAIRMAN EDWARD R. ROYBAL

Good afternoon and welcome to this hearing of the House Select Committee on Aging.

We have two objectives today:

First, we want to express our agreement with the President's new assessment that the Senate's proposal to reduce COLA's is a "bookkeeping gimmick" that will not reduce deficits. We are glad he recognizes that Social Security has a surplus and we welcome his support of our long standing efforts to take Social Security out of the Unified Budget.

Second, we want to emphasize that protecting Social Security benefits is just one-half of the battle to protect the rights of Social Security taxpayers and beneficiaries. We must also protect Social Security's administrative integrity which is threatened by large staff cuts and the potential closing of hundreds of Social Security offices. I believe that the best way to protect Social Security is to reestablish it as an Independent Agency.

Unfortunately, the Administration still opposes independence for Social Security. In notifying me that Secretary Heckler would not be able to attend this hearing, the Department of Health and Human Services reiterated its opposition to making Social Security an Independent Agency. And last week in the Appropriations Committee, we were still faced with an Administration request for the first installment of a five year plan to cut Social Security's staff by 21 percent.

I feel that such steep cuts in staff together with the Administration's plans to begin dismantling the Social Security Administration's service delivery network of over 1,300 local Social Security offices will cripple the Social Security Administration's ability to administer its programs. And since every dollar of administrative expenses are paid by the Social Security Trust Funds, these proposed cuts are just as much of a "bookkeeping gimmick" as cutting Social Security benefits.

If the President is serious about protecting Social Security he should withdraw his Administration's request to reduce Social Security staff and services and endorse our efforts to create an Independent Social Security Agency.

In the House of Representatives, we have a consensus bill to create an Independent Social Security Agency headed by a three member Social Security Board as it was during the Roosevelt years. This bill, H.R. 825, which Congressmen Pickle, Rostenkowski, Archer and I introduced last January, has broad bipartisan support in the House and in the Ways and Means Committee. By taking the next logical step of endorsing H.R. 825, the President could reassure those who say he is not serious about protecting Social Security. Otherwise there will be those who say that the President's intention is simply to trade one "bookkeeping gimmick" for another "bookkeeping gimmick."

Given the importance of this issue, I want to give the Administration every opportunity to publicly demonstrate that they will join the growing consensus in the House of Representatives in support of H.R. 825. Therefore, I am today sending letters to renew my invitation to the Secretary of Health and Human Services and the Acting Director of the Office of Management and Budget to testify on another day.

Before hearing from other members and our distinguished witnesses, I want to congratulate my colleague, Matthew Rinaldo, the Committee's Senior Republican, for his outspoken advocacy for removing Social Security from the unified budget. Those who are unaware of the arguments in favor of removing Social Security from the Unified Budget should read an article which Mr. Rinadlo wrote for the August 14th Christian Science Monitor which I am including for the record. Other distinguished members of this Committee including Claude Pepper (D–FL), Don Bonker (D–WA) and Mary Rose Oakar (D–OH) deserve special mention. It was Ms. Oakar's legislation H.R. 161 that was the original off-budget legislation in this Congress.

We are very fortunate in having four distinguished witnesses this morning. We are especially indebted to Mr. Franklin Roosevelt Jr. for changing his schedule to be here. He, like his father, has a strong committment to the Social Security system. We are also fortunate to have representatives of the Social Security Administration's rank and file employees and the managers of the 1,300 local Social Security field offices. Both managers and employees share the view that Social Security needs to be independent and off-budget. And we shall also hear from Jacob Clayman, President of the National Council of Senior Citizens, who will speak for the entire Leadership Council of Aging Organizations.

PREPARED STATEMENT OF REPRESENTATIVE CLAUDE PEPPER, CHAIRMAN, SUBCOMMITTEE ON HEALTH AND LONG-TERM CARE

Mr. Chairman, members of the committee, the subject of today's hearing is an important one—that is, how to remove the Social Security Program from the unified budget and from politics as much as possible. I would like to commend my colleague, Hon. Edward Roybal for convening this timely hearing.

No single function of Government affects as many Americans as profoundly as Social Security does. More thatn 94 percent of America's aged receive a monthly retirement check, and 4.5 million disabled workers and their spouses and children receive disability insurance benefits every month. Altogether, more than 36 million

beneficiaries receive a check every month, and 120 million workers contribute through the payroll tax to Social Security.

Between its inception in 1935 and now, Social Security has transformed the economic well-being of virtually every man, woman, and child in America. The dramatic reduction in the incidence of poverty among the aged, for example, can be attributed almost completely to Social Security. If there were no Social Security, there would be about 3.5 elderly poor persons for every 1 now below the poverty level. Social Security is the primary source of income to about 70 percent of all persons aged 65 and over, and it is virtually the sole source of income for almost 30 percent of the elderly.

In 1981, concern over the financing of the Nation's social insurance system placed Social Security at the center of a national debate, the outcome of which would be felt by everyone in America. The Nation was greatly disturbed by the possibility that the Government might turn its back on the commitments it had made over the last 50 years. The National Commission on Social Security Reform on which I had the honor to serve as an appointee of the Speaker of the House, was a product of this national debate. In turn, the Commission's efforts produced the Social Security Act Amendments of 1983. With the enactment of these amendments, the scare talk of imminent bankruptcy and drastic reductions in Social Security came to an end.

Yet, the recent debate concerning the means for reducing the deficit has brought into question the need for reductions in Social Security benefits once again. Whittling away at Social Security benefits would reverse the progress that has been made and plunge additional people into the poor and near poor category.

If Social Security is to continue to withstand these periodic attacks and remain the strong and enduring expression of our national resolve, then all Americans must understand that Social Security is not a problem to be solved but rather a solution to be preserved.

I believe it is time that we consider implementing a recommendation which I and numerous members of the bipartisan commission agreed would improve the operation of the Social Security and strengthen public confidence in the integrity of the program—we recommended that Social Security should be administered as an independent agency under a bipartisan board as it was in the early days of the program. In this manner, changes in the Social Security Program would be recommended only for programmatic reasons, and not for purposes of balancing the budget.

I look forward to hearing today's testimony and to their views on this recommendation.

Thank you.

PREPARED STATEMENT OF REPRESENTATIVE TOMMY F. ROBINSON

Mr. Chairman, today's hearing is timely for many reasons. Not only have we just celebrated the 50th anniversary of the Social Security Administration, but also we have secured passage of a fiscal year 1986 budget that keeps faith with the senior citizens of this country.

And it was truly a battle. The President tried in his first term to cut Social Security—thankfully he was unsuccessful. When campaigning for reelection, this same President said Social Security was sacred and would not suffer at the hands of David Stockman. But once the election was over, this same President did yet another about-face and tried to get senior citizens to pay for his defense buildup by proposing a cut in Social Security.

Social Security has certainly been a political football. That must not be allowed to continue. And the two measures we are considering today can take this program out of the political arena.

I support taking Social Security out of the unified budget. And to avoid a repeat of this year's political shenanigans, it should be done now—not in 1993 as presently scheduled. That is exactly what prompted my distinguished colleagues, Representatives Rinaldo and Hammerschmidt, to introduce H.R. 2164. Prompt enactment of this measure will go a long way toward ensuring a secure future for Social Security beneficiairies.

H.R. 825, converting the Social Security Administration into an independent agency, is a complement to H.R. 2164. I am proud to be a co-sponsor of this bill as well which is a second cornerstone in our efforts to protect this nation's senior citizens.

Together, these two measures will send a clear signal to today's young men and women in the workplace. They will see that the Social Security system is strong, vital and dedicated to fulfilling its commitment. The trust fund is well able to serve

current retirees. And once the Social Security programs are forged into an independent agency and removed from the unified budget today's workers will clearly see that the system is no longer prey to political manipulation and maneuverings.

These are positive steps in our effort to protect this linchpin program. I am indeed pleased, Mr. Chairman, to participate in today's hearing.

Prepared Statement of Representative Robert Borski

Thank you very much, Mr. Chairman. I applaud you for convening today's hearing on this important legislation. As you well know, there is a clear and compelling need to approve this bill promptly in order to protect the integrity of the Social Security system.

After weeks of negotiation and months of heated debate, the House and Senate finally approved resolutions on August 1 that guarantee the 1986 Social Security cost-of-living adjustment [COLA]. Fortunately, the COLA is safe for the next year, but no assurances can be given beyond that.

As part of the unified budget, there is little doubt that Social Security will come under attack during future budget debates by those looking for accounting gimmicks that will make the deficit appear smaller. If we are going to fulfill our commitment to 37 million beneficiaries, the Social Security Trust Funds must be removed from the unified budget immediately.

But our efforts to protect Social Security should not stop there. Establishing an independent Social Security Agency would also help minimize the effect of politics on these hard-earned benefits. Under this legislation, Social Security would be governed by a board of commissioners who would be reponsible for ensuring the long-term fiscal integrity of the system, without regard for the short-term deficit reduction schemes that might be promoted by members of Congress or the Administration.

Last month, we celebrated the 50th anniversary of the Social Security System. If it is to remain the most successful anti-poverty program ever established for the next half century, we should approve this important legislation. Again, I commend you, Mr. Chairman, for convening this hearing, and I commend the authors of the bill for their efforts on behalf of America's Social Security beneficiaries.

Prepared Statement of Representative Richard H. Stallings

Mr. Chairman, it is painfully obvious that Social Security was a pawn in the budget process this year. Since May, when the House passed its first budget resolution, House and Senate conferees had worked to reconcile differences in their respective budgets. The primary obstacle to agreement was whether to provide full COLA's for Social Security. The Senate had voted originally not to provide any COLA for retirees, while the House had insisted on a full increase. Adding to the confusion, the President alternately rejected and then embraced the House position.

In August, after months of negotiations, the House and Senate finally agreed on a budget compromise, and I am pleased that it retained the original House position to provide a full cost-of-living adjustment (COLA) for Social Security recipients.

But the bitter fight over the COLA should never have happened. Those individuals who sought to freeze the COLA failed to understand that Social Security has no place in the deficit debate.

First, Social Security does not belong in the federal budget. Social Security benefits are paid from a special trust fund, derived from Social Security taxes, and cannot be used for any other purpose. So cutting the COLA or otherwise reducing benefits cannot reduce the deficit—just make it look smaller.

Second, Social Security is not contributing to the deficit. The Social Security trust fund is running a substantial surplus—about $9.2 billion in 1986. President Reagan was absolutely right when he said, "I think we are wasting a lot of time talking about it. Social security is running a surplus. And it is funded by a tax that can only be used for that purpose. So when we talk about Social Security, we're really not getting at the deficit problem at all."

Social Security is a contract between the generations. Workers are willing to pay taxes to provide benefits for current retirees, and in turn, they rely on the next generation's commitment to do the same. By insulating Social Security from future political battles, we will preserve the fundamental promise of social security—its promise of security for the future.

I commend the Chairman for calling this hearing, and I thank the witnesses for their statements. I strongly believe Social Security should be removed from the uni-

fied budget and that the Social Security Administration should be established as an independent agency.

Prepared Statement of Representative Thomas J. Manton

Although I am unable to attend today's hearing, I want to commend Chairman Roybal and Mr. Rinaldo for their leadership on this issue. Over the past several months, millions of Older Americans held their breath while Social Security was used as a political punching bag during the budget debate. Today's workers do not believe that Social Security will be around when they retire. Chairman Roybal has the right idea. It's time we went back to the basics of Social Security.

The first step is to remove Social Security from the unified Budget. I am pleased that President Reagan has now endorsed this deal. To include Social Security as part of the unified budget is an inaccurate representation of the nation's financial situation. If we in the Congress want to seriously address the problem of the deficit, we should also accurately represent the size and nature of that deficit. To proclaim deficit reduction by reducing Social Security benefits is both harmful to Social Security beneficiaries, and a false cure to our deficit crisis.

Furthermore, while removing Social Security from the unified budget is an important action, it is time that Social Security became an independent agency. The Administration has recently proposed to cut the Social Security Administration's staff and to reduce the number of Social Security offices serving our constituents, Social Security beneficiaries. However, administrative costs comprise only 1.5 percent of SSA's budget. The Administration is presenting false panaceas that do not reduce the deficit or improve the operation of the Social Security Administration. As the sponsor of H. Res. 219, which expresses the sense of the House as opposed to the further downgrading or closure of Social Security offices, I believe the establishment of the Social Security Administration as an independent agency is vital to ensure the stability, efficiency and integrity of the System.

I look forward to carefully studying the record of today's hearing. For the retirees of today and tomorrow, it is time to go back to the basics.

Prepared Statement of Representative Mary Rose Oakar

Mr. Chairman and Members of the Committee, I am very sorry that my schedule would not permit me to attend this important hearing. The issue of depoliticizing Social Security has been a priority for me since I came to Congress 9 years ago. I am delighted that my colleagues on the Aging Committee have made this issue equally as important by supporting my legislation, H.R. 161, which removes the Social Security trust funds from the unified budget; by introducing similar bills; and by supporting H.R. 825, which makes the Social Security Administration an independent agency.

The American people have been lucky in the past several years because we, in Congress, have been able to avoid budgetary measures which would have altered or reduced Social Security benefits. The threat, however, remains a reality. And, until we completely remove Social Security—the agency and the programs—from political manipulation, the system remains vulnerable.

As Secretary of the Democratic Caucus, you can count on my strong support in moving these bills through the Congress. I am certain that today's hearing will prompt the House leadership to view this issue with the importance it needs.

Prepared Statement of Representative Bill Young

Mr. Chairman, I want to thank you and the members of your Committee for allowing me to present testimony today in support of H.R. 1385, legislation I introduced to accelerate the removal of the social security trust funds from the unified federal budget.

President Reagan has endorsed my legislation, saying that incorporating the social security trust funds into the federal budget is nothing but a "bookkeeping gimmick." I testified before the Ways and Means Committee on April 23, in support of my legislation, and wrote Chairman Jim Jones on August 1, urging the Committee to act on this matter before the fiscal year ends September 30.

As you know, the National Commission on Social Security Reform and the Ways and Means Committee in 1983 supported the removal of the social security trust funds from the unified federal budget. The Social Security Amendments of 1983 in-

cluded this provision, but the effective date was delayed until 1993. My legislation would make this accounting change beginning in fiscal year 1986.

The social security system was established 50 years ago as an autonomous, self-supported program with independent trust funds financed by employee and employer contributions. Congress has ensured the separation of the trust funds from general Treasury accounts to insulate the program from political and budgetary pressures.

For the most part, the social security trust funds have maintained a surplus throughout the program's history. To capitalize on this financial situation, President Johnson directed that beginning in 1969 the social security trust funds should be incorporated into the unified federal budget so that these surpluses would offset the mounting federal deficit.

As a result, it was once again suggested this year that social security cost-of-living adjustments should be eliminated or reduced to lower the federal deficit. This was another attempt to meet short-term budgetary goals, rather than to effect change for the long-term betterment of the social security system.

Changes in the payment of social security benefits should only be considered by Congress to ensure the program's financial stability because the trust fund surpluses cannot be used to reduce the federal deficit. During a hearing of my Appropriations Subcommittee which oversees the funding for the social security program, Social Security Commissioner Martha McSteen testified in response to my questions that social security trust fund surpluses cannot be used to fund national defense programs, build bridges or roads, provide for educational or farm programs, or pay the interest on the national debt. I agree with President Reagan who has called it a "delusion" to suggest that reductions in social security benefits can affect the federal deficit.

The budgetary choices Congress must face throughout this decade will only become more difficult, making the social security surpluses a more inviting target. The pressures to tamper with social security benefits will be especially great as the surplus reaches a projected $12 trillion early in the next century before the large number of people born after World War II begin to retire. We cannot stand by and allow social security benefits to be chipped away to provide false budgetary savings.

Your committee's support for my legislation will reassure our nation's 36 million social security recipients that their benefits will no longer be jeopardized year after year. Together, it's my hope that we can encourage the House leadership to promptly schedule action on this important legislation.

The CHAIRMAN. We will first hear from three very distinguished individuals, first, Mr. Steve Bauer; Mr. Jacob Clayman; and Mr. John Harris. May I suggest that the three witnesses on our panel each summarize their remarks?

We realize that you may have long written statements, and if it is absolutely necessary that you read them, well, do so, but I hope that you can summarize them, so that we can get the important parts of your testimony.

Mr. Steve Bauer, all three of you, please come to the table. Mr. Steve Bauer is the first to testify. He is the president of the Social Security Management Association, and currently the district manager of the Minot, ND, Social Security office.

STATEMENT OF STEVE BAUER, PRESIDENT, SOCIAL SECURITY MANAGEMENT ASSOCIATION, AND DISTRICT MANAGER, MINOT, ND, SOCIAL SECURITY OFFICE

Mr. BAUER. I will gladly summarize my remarks and request the remarks be included in the record.

I am pleased to be with you today to discuss removing Social Security from the unified budget and establishing Social Security as an independent agency.

I speak for an association comprised of Social Security field office managers and supervisors. Over 80 percent of all SSA field man-

agement employees belong to our voluntary, dues-supported organization.

The people I represent hold the most publicly visible and accountable jobs in our agency. Each year, we deal with tens of millions of Americans face to face and over the telephone.

We are on the cutting edge of public reaction to every legislative, judicial, and executive—be it by OMB, HSS, GSA or SSA—decision affecting the delivery of the Social Security Program to the American public. We also bear the brunt of any criticism of our agency or program.

Our association is recognized as supportive and complementary to the stated objectives of the Social Security Administration. What concerns us most is our ability to efficiently serve our fellow Americans who rely on us for timely and accurate payment of their checks.

In a recently completed survey of our membership, 97 percent supported independent agency status for SSA, and 84 percent favored quick removal of Social Security trust funds from the unified budget. Survey results are attached.

I think we are beyond the point of debating whether SSA should be an independent agency and whether Social Security should be removed from the unified budget. We need only look at the 1981 National Commission on Social Security, the 1983 National Commission on Social Security Reform, the Social Security Amendments of 1983, Public Law 98–21, the 1984 Congressional Panel on Social Security Organization, and the testimony being presented here today to see that there is overwhelming support for these initiatives.

Our task now is to formulate a structure for an independent SSA and a timetable to remove the trust funds from the unified budget.

The time to remove SSA from the unified budget is now. When I joined SSA in 1971, it was considered one of the premier Federal agencies for operating efficiency and quality of public service.

Since then, for many reasons, SSA has lost some of its public reputation and administrative excellence. The beginning of SSA's slide can be traced back to the unified budget concept adopted in the 1960's. That step immersed us in the political/budgetary conflicts which have ensued.

It is important to note that through its 50-year history, SSA cash programs and Medicare have had a cumulative excess of income over outgo. In other words, we have not contributed to the national debt and budget deficits, and we should not be expected to solve them.

Yet, as a $200 billion operation, SSA is attractive to budget makers and cost cutters as a place to pare the deficit. There is little, if any, recognition in these proposals of the long-range implications for the Social Security Program.

Although the bulk of our programs are financed through the trust funds, policy decisions are now all too often based on the impact on the overall budget rather than on what is best for the Social Security Program.

We cringe every time we see Social Security treated like a tennis ball being smashed back and forth across the net by our political parties. Politics must always govern SSA. But politics must never

interfere with our recognition of the dignity of America's senior citizens and the disabled.

Removal of SSA from the unified budget will help put decisionmaking back in its proper perspective, balancing the interests of the American taxpayer with the needs of current and future recipients of SSA benefits.

Independent agency: To fully restore SSA to its position as a trusted and respected agency, we must make it an independent agency. The comprehensive nature of SSA's programs demands long-range planning and decisionmaking.

Since the Nation's workers are dependent upon the Social Security System for the "floor" of their income protection, it is necessary to develop as stable a program as possible.

Yet, Social Security has had nine Commissioners in the past dozen years, four of whom served only in an acting capacity. During the same period, there have been six HEW/HHS Secretaries.

This "revolving door" leadership has led SSA through several reorganizations adversely affecting morale and has made both short- and long-range planning extremely difficult. It is urgent to restore stability in executive leadership in SSA.

This lack of stability has also been a major cause of the deterioration of public confidence in SSA. Look at the implementation problems of the SSI Program in 1974, the financial crises of 1977 and 1983, the sorry state of our computer systems, and the disability cessations uproar over the last few years. These were all avoidable and occurred primarily because of the lack of continuity in our leadership.

Look at the issues occupying SSA management's time recently: OPM's "Operation Bulge" mandating a 2-percent-per-year reduction in GS-11 to GS-15 employees. This applied to SSA even though we were well below Governmentwide averages in these positions.

GSA's inability to timely and satisfactorily meet SSA's space needs: HHS-mandated staffing restrictions and freezes severely hampering SSA's ability to recruit needed employees and last, but certainly not least, OMB's phenomenal plan to reduce SSA's staff by 20 percent over the next 5 years.

SSA needs the freedom to budget for and obtain needed resources, be it space, staff, or computer systems.

How do we envision SSA as an independent agency? We certainly don't mean independent from congressional authority to change the program. We don't mean total freedom from budget approval. We do mean, however, administration of the program by those accountable for the program, not by those whose priorities lie elsewhere.

We believe an independent SSA should administer Social Security retirement, survivors, and disability insurance; supplemental security income; and Medicare. We should not administer child support enforcement, AFDC, food stamps, refugee resettlement, or Medicaid.

We recognize the feeling shared by many that Medicare should remain with Medicaid under the HHS umbrella. We ask only that it be recognized that whether or not Medicare is administered by

SSA, SSA will still be charged with making Medicare entitlement decisions and handling some 4 million Medicare inquiries from program participants each year.

We favor an organizational structure consisting of a Board of Directors and a Commissioner. We could live with many of the options presented concerning who has authority to appoint the Board and the Commissioner and how long their terms will be.

We feel it is essential, however, to have a strong career Commissioner with delegation of specific operational duties and authorities. The Board and/or the Commissioner must have greater autonomy from GSA and OPM for administrative services, computer acquisition, and personnel management.

We envision a dedicated, knowledgeable Commissioner; we know of no better role model than our current Acting Commissioner, Martha McSteen.

Let me make it clear, we are proud to work for Social Security. Despite the problems I have mentioned, we deliver an invaluable service to millions of Americans in a dignified, courteous manner every day.

Our field office structure stands as a hallmark of SSA's uniqueness. Besides being a distinctive community presence, the field structure represents unprecedented opportunities for government to effectively and personally serve its citizens.

Our local offices achieve not just accessibility but trust and cooperation with the public. Let us restore the public's confidence in our program, and let us allow SSA to regain its place as the model Federal agency delivering an important program in an effective yet cost-effective manner.

Removing SSA from the unified budget and establishing SSA as an independent agency will move us steadfastly in that direction.

Thank you, Mr. Chairman.

[The information follows:]

INDEPENDENT AGENCY SURVEY OF SOCIAL SECURITY ADMINISTRATION FIELD OFFICE MANAGERS AND SUPERVISORS

1. Do you feel that Social Security would best function as an independent agency, removed from HHS?
   1. Yes; 96.82 percent.
   2. No; 2.64 percent.
2. Which of the following administrative structures would you like to see in Social Security?
   1. Current—Commissioner appointed by the President; 9.38 percent.
   2. Board appointed by the President; Board hires the Commissioner; 22.25 percent.
   3. Commissioner appointed by the President; Advisory Board appointed by Congress; 66.61 percent.
3. Should the President be able to fire Board members or should removal from office require a finding of misconduct?
   1. At the pleasure of the President; 10.37 percent.
   2. With finding of misconduct; 88.03 percent.
4. Should the Commissioner's term of office be the same as the President's 4 year term?
   1. Yes; 20.28 percent.
   2. No; 78.42 percent.
5. Should the President be able to fire the Commissioner or should removal from office require a finding of misconduct?
   1. At the pleasure of the President; 13.17 percent.
   2. With finding of misconduct; 85.46 percent.

If you answered question 1. in the affirmative, please answer questions 6 through 11.

6. Should old-age, survivors, and disability insurance be included in an independent Social Security Agency?
   1. Yes; 95.45 percent.
   2. No; 1.43 percent.

7. Should Medicare, Part A and B, be included in an independent Social Security Agency?
   1. Yes; 79.18 percent.
   2. No; 18.31 percent.

8. Should Medicaid be included in an independent Social Security Agency?
   1. Yes; 29.06 percent.
   2. No; 67.37 percent.

9. Should SSI be included in an independent Social Security Agency?
   1. Yes; 77.51 percent.
   2. No; 19.83 percent.

10. Should A.F.D.C. be included in an independent Social Security Agency?
   1. Yes; 23.08 percent.
   2. No; 73.27 percent.

11. Should Food Stamps be included in an independent Social Security Agency?
   1. Yes; 19.22 percent.
   2. No; 75.09 percent.

12. Should the 1990 date of removing Social Security funds from the unified budget be moved forward to an earlier date?
   1. Yes; 83.72 percent.
   2. No; 14.08 percent.

13. Should the state disability agencies be taken over by the Federal Government?
   1. Yes; 65.93 percent.
   2. No; 25.43 percent.

Possible answers for questions 14 through 18:
   Strongly agree (SA).
   No opinion (NO).
   Disagree (D).
   Agree (A).
   Strongly disagree (SD).

How strongly do you feel that SSA should have more independence from OPM and GSA to:

14. recruit employees and set grade and pay and performance standards for job categories comensurate with the unique and essential mission of the agency?
   (SA); 66.08 percent.
   (A) ; 22.71 percent.
   (NO); 2.95 percent.
   (D); 4.46 percent.
   (SD); 3.10 percent.

15. acquire, lease, maintain and/or contract for property and office space?
   (SA); 57.15 percent.
   (A) ; 27.85 percent.
   (NO); 7.64 percent.
   (D); 4.01 percent.
   (SD); 2.34 percent.

16. acquire lease, maintain and/or contract for computer systems and services?
   (SA); 64.79 percent.
   (A) ; 24.07 percent.
   (NO); 5.07 percent.
   (D); 3.10 percent.
   (SD); 2.27 percent.

17. hire people on a job task/workforce plan rather than under a personnel ceiling?
   (SA); 51.60 percent.
   (A) ; 23.39 percent.
   (NO); 11.73 percent.
   (D); 7.94 percent.
   (SD); 3.78 percent.

18. provide for multi-year funding of large capital expenditures, including construction and computer acquisitions?
   (SA); 57.30 percent.
   (A) ; 29.52 percent.

(NO); 9.00 percent.
(D); 1.81 percent.
(SD); 1.58 percent.

The CHAIRMAN. Thank you, Mr. Bauer.

The next witness is Mr. Jacob Clayman, president of the National Council of Senior Citizens. Today, Mr. Clayman is testifying in his capacity as chairman of the Leadership Council on Aging, which represents virtually all national organizations of older Americans.

Mr. Clayman, as you know, participated in the cutting of the cake of the 20th anniversary of Medicare, and he was also present, I believe, during the celebration of the anniversary of Social Security.

Mr. Clayman is one of the most active young men that we know on Capitol Hill, and we are proud to have you appear before us today. Would you please proceed in any manner that you may desire?

STATEMENT OF JACOB CLAYMAN, PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS, AND CHAIRMAN, LEADERSHIP COUNCIL ON AGING; ACCOMPANIED BY GAIL DRATCH

Mr. CLAYMAN. Mr. Chairman and members of the committee, I know you are a very gracious person, Mr. Chairman, and I appreciate those comments, particularly about my youth.

There are a few who think otherwise, and one in particular named Jacob Clayman who knows otherwise.

The CHAIRMAN. Mr. Clayman, we young fellows have to stick together.

Mr. CLAYMAN. All right, I will make common cause with you any day.

I have asked Gail Dratch of our office to sit with me for morale and intellectual encouragement, and thank you, Mr. Chairman, for inviting the Leadership Conference of Aging Organizations to testify on these important issues.

In the past 5 years, and in each one of those years, senior citizens were actively attacked with Social Security cuts or threatened with further attacks.

In the early eighties, the threat was based on the allegation that the Social Security Fund was in great financial danger, and that the fund was running dry, and in 1983 came congressional actions on the recommendation of a Presidential Commission, which assured an ample Social Security Fund for as far as the mind can conceive.

Some said for at least 75 years. They may be right. They may be wrong, but it is for a long time, of that we are all sure, and many of us in the senior citizens' movement relaxed.

The assaults were surely at an end. The integrity of the Social Security Fund had been established, but no, no. A new argument arose in the mideighties. We must hit Social Security to hit the outrageous Federal budget deficit of recent years.

It is clear that some in the administration and in Congress still want to make Social Security, the elderly, the whipping boy, no matter what the reason, whether the argument be a Federal deficit running amok.

I see enough senior citizens as I get about still to tell you that these proposed cuts which come up from year to year play havoc with the morale and indeed the personal happiness and security of the elderly.

Every attack or threat to Social Security scares the wits out of many of them, so we need to remove the Federal deficit from those in political life, who seek to make a scapegoat of the elderly and force them to bear much of the brunt of solving the deficit dilemma.

It is a self-sustaining program from employers and employees, as you know. The Social Security Fund cannot be used by the Government for any purpose other than paying Social Security benefits and Social Security administrative costs, and so, many have said, and perhaps belatedly, and perhaps the President of the United States, Social Security cuts will not in reality reduce the Federal budget. It is an illusion, a paper transaction that has neither useful meaning nor substance.

The idea of submitting Social Security to reduce Federal deficits is pure mirage. As some put it, even as far as the White House, "smoke and magic."

Only by removing Social Security from the unified budget can we eliminate the temptation to grossly and thoughtlessly assault Social Security. I indeed hope that those who believe that Social Security is fair game for attack will reevaluate their positions.

Even though their efforts fail as sometimes they do, they still inject fear and trepidation into the lives of seniors every time they take the offensive, and finally, Mr. Chairman, we heartily approve of an independent Social Security agency.

We assume, and I think properly, that it will mean greater efficiency, and I know increased public confidence, and I know reduced political pressures which have been enormous, as all of you know, whichever side of the fence you have been on in the past.

I assume better management, because we are more likely to use more professionalized personnel to run the operation, and it would be bipartisan.

The gentleman who spoke before me referred to the closing of offices. The statistics tell me that 377 offices are likely to be closed by this administration of Social Security. 382 which may be closed or downgraded, and the work force reduced by 17,000 by 1990.

This was not a decision of Congress, of course. It was a decision by those who run the bureaucracy, and I assume emanating from the leadership of HHS, and indeed, from the White House itself.

I have the moral certainty that if we had a bipartisan commission, without the political pressures that are normal in most administrations, that this would not have happened, that this plan would not have been conceived, and certainly have not been promulgated.

Gentlemen, forgive me, and ladies, too, at least this program that is suggested by those two bills that are in now, at least they give us the hope of an honest, bipartisan management of a terribly important program that affects so many people in our land.

There is no place, in my judgment, and God knows, I am a political person myself in terms of habits and attitudes, there is no place in our land for a partisan, political management of a program so

sensitive and so close to the lives and the hearts and the welfare of tens of millions of senior citizens.

I would hope that, though I may have sounded a wee bit partisan as I read my brief statement, that on both sides, we could make common cause, and in one fell stroke this year change the complexion of the management that will add a sense of greater security, a sense of better management, a sense of bipartisanship.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Clayman follows:]

PREPARED STATEMENT OF JACOB CLAYMAN, CHAIRMAN, LEADERSHIP COUNCIL OF AGING ORGANIZATIONS

Mr. Chairman and Members of the Committee, I want to thank you for inviting the Leadership Council of Aging Organizations to testify on the issues of separating Social Security from the Federal Unified Budget and establishing an independent Social Security Administration.

Perhaps the clearest lesson that can be drawn from the recent budget battle, is that American people will not support arbitrary and unwarranted cuts in the Social Security program in order to reduce the Federal deficit.

The most recent report issued by the trustees of Social Security projects that, over the next decade, the accumulated surplus in all the trust funds will reach $483 billion. In fact, large surpluses in Social Security are expected to continue for, at least, the next 35 years. In view of the financial soundness of the Social Security system, we feel that now is the time to finally remove this program from the year-to-year deliberations on the Federal budget.

Spending for Social Security is not financed through general revenues as are all other government programs. Social Security funds are self-financed through worker and employer contributions to the various Social Security trust funds. Except for a portion of Medicare Part B payments, no money for Social Security benefits comes from general revenues; the various Social Security programs operate on a self-sustaining basis. Moreover, by law, Social Security funds can only be used to pay Social Security benefits and administrative costs; they cannot be used for any other programs.

A widespread misunderstanding of the independent nature of these funds has emerged since 1969 when the concept of a single, "unified" budget was first introduced. Prior to this, Social Security trust funds were accounted for separatedly and were clearly distinct from general revenue income and expenditures.

Any changes in benefits were made based on the objectives of the program. Now, although the separate trust funds still exist, they are accounted for in a single Federal budget, along with general revenue income and expenses. This has obscured the exclusive nature of the trust funds and created the illusion that Social Security expenditures are no different than other government expenditures. Because the Social Security program is so large it has also meant that it becomes the main target for deficit reduction efforts.

Mr. Chairman, our goal goes beyond simply removing Social Security from the budget process. We believe that it must be removed from all discussions related to reducing the Federal deficit.

We recognize that, even if legislation is enacted, there will still be a need to monitor all Federal government activities. However, there will be no need for either the Office of Management and Budget or the Congressional Budget Office to include Social Security surpluses in their deficit projections.

In view of President Reagan's support for removal, we expect that when the FY 1987 budget is proposed next January, it will project a deficit excluding Social Security. We would also expect CBO to follow suit. If this is not the case, every motivation will remain to cut Social Security in order to reduce the deficit. Therefore, we urge you to make clear in the legislation history of such a bill, that removing Social Security trust fund surpluses from deficit projections is a vital objective.

The report of the 1971 Advisory Council on Social Security, issued shortly after implementation of the Unified Budget, stated: "Even though the operations of the Social Security trust funds are combined with the general operations of the Federal government in the Unified Federal Budget, policy decisions affecting the Social Security program should be based on the objectives of the program rather than on any effect that such decisions might have on the Federal budget. The operations of

Social Security should continue to be identified as such and separated from the general operations of the government."

Under the terms of the 1983 Social Security compromise, Social Security will be removed from the unified budget in FY 1993. Legislation has been introduced in both the House and the Senate which would move up this date. We hope that this legislation will receive prompt attention so that changes in Social Security programs will no longer be made on the basis of budgetary considerations.

ESTABLISHING AN INDEPENDENT SOCIAL SECURITY AGENCY

The Leadership Council of Aging Organizations believes that establishing an independent Social Security agency, administered by a bipartisan board, will have positive results: greater efficiency in administering Social Security programs; increased public confidence in Social Security; and reduced political pressures on the program.

We feel that the creation of an independent agency to administer Social Security and to manage the 84,000 employees now working for the Social Security Administration would resolve many of the internal management problems currently facing SSA and would help guarantee that the Social Security system is managed in the most non-political and efficient manner possible. Experience shows that an organization not in control of its programs, its resources, it budget and its policy cannot be run efficiently. SSA currently does not have adequate independence and is unable to resolve operating and management problems. Naturally, it is the beneficiaries who suffer the consequences of this inefficiency.

We believe that, along with increased efficiency, the creation of an independent agency would provide the Social Security system with more stable and continuous administration and leadership. This independence and continuity would in turn add to the public confidence in the system. Treating Social Security like any other government program within the Department of Health and Human Services limits public understanding and support for it; it is just viewed as part of the monolithic Federal bureaucracy. Creating a separate agency would help reinforce to the public that Social Security is a self-contained, self-financed system, and is not just like any other government program. This agency's existence would be visable proof that Social Security is an ongoing insurance and retirement program, one that will continue for years to come, and is not just another domestic program to be reduced or expanded at the whims of the government.

Finally, creation of a separate agency with a bipartisan board would help ensure that Social Security is removed from the political arena and will not suffer due to changes in presidential administrations. Social Security would be insulated from sudden policy shifts. Fluctuations in politics and policy undermine both the program and the public's confidence in it. Freeing administrative operations from short-term political influences will strengthen the long-term commitments of the program.

Rep. Jake Pickle has introduced H.R. 825, along with 62 other members of the House, to set up an independent Social Security agency. We feel that, coupled with the removal of trust fund operations from the unified budget, senior citizens will be greatly reassured that the program upon which they are so dependent will no longer be a "political football" for the President or the Congress to kick around.

Thank you.

The CHAIRMAN. Thank you, Mr. Clayman.

The Chair now recognizes John Harris, immediate past president of the American Federation of Government Employees, past president of AFGE's Council of Social Security Field Office Locals, and he represents approximately 40,000 employees in more than 1,300 local Social Security offices throughout the country.

Currently, Mr. Harris is assistant to Ken Blaylock, president of the American Federation of Government Employees.

Mr. Harris, please proceed.

STATEMENT OF JOHN HARRIS, ASSISTANT TO KEN BLAYLOCK, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. HARRIS. Mr. Chairman, I want to thank you on behalf of AFGE to testify today. There is no issue more important for us

than seeing that Social Security is set up as an independent agency.

Mr. Blaylock himself wanted to testify and was unable to. Because he has had a personal hand in drafting this legislation, he wanted to have his testimony read to you, and so, I will do just that.

Long before the issue of the Federal deficit dominated it, there has been continuing debate on the worth of the Federal Government in our society and what the right role of government is.

Some say it is too powerful. Some say it is too weak. Some say that it tries to do too much and interferes with decisions that others want to make without it.

Others say that it does too little and should be more responsible and take stronger action in matters that concern them. The debate is more profound than any argument between people who seek some favor from the Government.

Prompted, perhaps compelled, by the economics of the Federal deficit, we are literally sorting through the roles and the responsibilities of the Federal Government, and we are choosing the government we want program by program, policy by policy.

Today we discuss a major choice: To set Social Security aside from that debate.

We have already gone through the debate in earnest. This hearing is really a formal milestone to mark its passing. Congress has enacted and the President has signed legislation to safeguard the program financially into the next century.

Congress and the President have considered and have not rejected proposals to cut that program in order to balance the budget.

A consensus has been reached that whatever else we may do and decide about the nature of our Federal Government, Social Security shall not be diminished. It is too vital to our lives, too integral to our employment, and critical to our economy.

Now, Members of Congress from both political parties support legislation to separate Social Security from the unified budget and establish it as an independent agency.

These actions are not merely symbolic. Yes, they do represent a public pronouncement, a sort of promise to the American people that we will set Social Security aside. But these actions will also have real consequences.

No longer will we consider arguments for cutting benefits based on the problems of the Federal deficit. Social Security benefits will rise or fall or change on their own merits, subject to their own financing, not for the need to loan more to the U.S. Treasury.

No longer will the services of the Social Security Administration be meted out by the brutal cost-efficiencies of OMB, which calculated the purge of 400,000 disabled beneficiaries and their families for cost savings to the Federal budget.

Social Security will stay a political issue, we do not doubt it. But there is no argument that Americans deserve the benefits they have earned that are set by law.

We recognize that some Members of Congress do not see the reason for establishing Social Security as an independent agency. For us, it is a logical coequal part of the public decision to set

Social Security aside as a function of the Federal Government and to safeguard it.

For if it is not, if only the programs are removed but not the administration of those programs, then the long knives of OMB will go after that administration. Already, they are seeking to close half of the Social Security offices and cut back staff by 17,000.

Just last week, we learned they are seeking to contract out essential services of the Social Security Administration, including its national computer center, which maintains the personal benefit records and earnings histories of 160 million Americans.

The first and foremost reason for establishing Social Security as an independent agency is to restore excellence to its public service.

As Senator Heinz has observed:

> A decade ago, the Social Security Administration was able to run this program fairly smoothly. Yet today, there is enormous evidence accumulating every day that public service has deteriorated seriously and even dangerously.

The stories are infamous. How the public gets shortchanged from shortcuts in computations and claims processing; how half the changes of address and changes of status are not processed timely; how the public waits and waits for service because there is not enough staff, and then gets treated in haste because so many more wait behind them.

In some of the teleservice centers, employees are told not to spend more than 2 to 4 minutes on each call, and, even with that, up to 20 percent of the callers never get through the busy signal or hang up after waiting more than 20 minutes.

Again, from Senator Heinz, we owe the finding by GAO that:

> One in five retirees receives an incorrect payment due to an administrative error at some time over a 5-year period. More disturbing yet is the finding that usually the error is in favor of the Social Security Administration, not the beneficiary, and usually goes undetected.

Each individual citizen of the United States is entitled to the Social Security benefits due to him by law, not just those that are cost-efficient for OMB. But by OMB's accounting, the citizen has become a number, a digit in a column of numbers.

How he is treated depends upon where on the ledger he fails. If he is 1 of the 10 to 12 million whose earnings were lost or scrambled in 1978 and 1979, this earnings record will never be correct because it is too costly to correct them.

Every retiree who applies for benefits today cannot be certain that he is getting the full benefits to which he is entitled because the Government has stopped reviewing his full earnings records in order to save administrative dollars.

Again, to quote from Senator Heinz:

> We want the Social Security Administration to keep an unblinking eye in its mission of public service, and the fact is that persistent and prevalent problems that have come to our attention which indicate that this mission is not being fulfilled.
>
> It is a public disservice not to protect each and every beneficiary's right to the retirement income they have earned. A system that errs frequently, and usually in favor of itself, fails the test of putting public service first.

In our view, the Social Security Administration will never put public service first as long as it must serve the masters of OMB, and DHHS, and GSA, and OPM, and all the political directorate

whose chief objective is not the mission of Social Security, but goals which conflict with it and undermine it and are indifferent to it.

To establish an independent agency is the only way that the Social Security Administration can be released from that political and fiscal perversion that has caused its public service to deteriorate.

We thank you again, Mr. Chairman, for this opportunity to speak to these issues. This is truly a momentous hearing. We hope it marks the beginning of a new epoch of public confidence in Social Security. They deserve it.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Harris.

It is usually the procedure of the committee to give each member 5 minutes to ask questions. We will abide by that rule.

Before turning to Mr. Rinaldo, I would like to include for the record statements of others who could not be here today, but who wanted to submit a statement for the record.

[The statements of Mr. Franklin D. Roosevelt, Jr.; American Federation of Labor and Congress of Industrial Organizations [AFL-CIO]; American Association of Retired Persons [AARP]; National Committee to Preserve Social Security and Medicare follow:]

STATEMENT OF FRANKLIN DELANO ROOSEVELT, JR.

Mr. Chairman and Members of the Committee, it is a pleaure to be here at this important hearing to address the need to protect Social Security programs and the Social Security Administration itself. Congress needs to restore the full measure of independence that Social Security had when it was originally established as a self-financed program administered by an independent Social Security board.

I was 3 days shy of my 21st birthday when my father signed the Social Security Act into law. Today I am proud to be one of the Social Security program's 37 million beneficiaries and I consider myself fortunate to be among the 119 million workers who contribute to the program.

I know my father considered Social Security to be the centerpiece of his domestic program. But he had to fight for it. First against those who said the government should play no role in helping people who had grown too old to provide for themselves. And then he had to fight for the principle that Social Security benefits should be the earned right of workers who contributed into a system they owned and not a welfare program owned by the government.

My father succeeded because the American people knew that Social Security would fill a need which no other private or public plan could fill. And the history of the last 50 years confirms his common sense judgement.

Every time there has been a challenge to Social Security, the American people have responded decisively. When the challenge to Social Security's very existence was turned back by the courts in the 1930's, the Congress responded by providing protection for the families and survivors of workers. After extensive debates in the late 1940's, Congress chose to expand Social Security's coverage to almost all workers rather than to increase traditional welfare programs. And after turning back ideological attacks early in the Eisenhower administration, we established a program to protect workers and their families against the financial ruin which often accompanies severe disability.

Most recently, Americans rejected the efforts of those who tried to use Social Security's short-term financing problems as a reason to make long-term structural changes in the program. Instead, workers and beneficiaries joined together in the best tradition of Social Security to reestablish its sound financial base and to provide future generations with stable benefit levels with full inflation protection guaranteed by law.

I believe my father would be proud of our record of achievement. I also believe he would be disappointed—but not surprised—by the continuing attacks on the Social Security system.

Today there is a two-fold challenge to Social Security's integrity. But unlike the challenges of the past, these new assaults are not frontal attacks on Social Security principles. Instead, there is a concious effort to somehow blame Social Security for the deficit problems in the rest of government and to discredit Social Security programs by undermining the Social Security Administration itself.

First, there is the effort to cut benefits not because Social Security has a financing problem—it doesn't—and not because benefits are too generous—they aren't. Today's rational is that Social Security benefits should be cut because they are somehow responsible for the deficits. Even the President—whose administration projects that Social Security's annual surpluses will surpass a total of $100 billion over the next five years—supported the Senate's early efforts to reduce Social Security cost-of-living adjustments (COLA's). Now he claims that it was just a bad idea that did not make any sense. I welcome his recognition of the fact that Social Security does not cause deficits and I welcome his support of our efforts for an immediate removal of Social Security from the Unified Budget. I hope the Congress will move quickly to give the President what he now says he wants.

The second threat to Social Security is a threat unlike any which it has experienced before. It is the threat that Social Security is being undermined by crippling the ability of it's employees to do the job which Congress and the American people want them to do.

For almost forty years Social Security had strong, consistent leadership and dedicated employees who could be confident of having a challenging career with a noble goal. For the last two years, the highest office in the Social Security Administration has stood vacant because the Reagan Administration has yet to nominate a successor to the Commissioner who was promoted into the White House. In the meantime, the Office of Management and Budget has proposed to reduce Social Security's staff by 21 percent over the next five years and the Administration's new review of Social Security field offices could result in the closings of hundreds of local Social Security offices.

It is as if they know that they can never win the ideological battle to destroy the Social Security program so instead they seek to destroy the Social Security Administration's ability to function.

Fortunately, the House of Representatives has taken up the challenge once again. It is following the recommendation of Claude Pepper, Lane Kirkland, Bob Ball and the other members of the 1983 Social Security Commission to re-establish the Social Security Administration as an Independent Agency.

It is fitting that you in the House of Representatives take this initiative because it was the House which, 50 years ago, insisted that the Social Security Administration be an independent board-governed agency and not a part of the Department of Labor.

Thanks to your efforts, Chariman Roybal, and to the efforts of Congressman Jake Pickle and Chairman Dan Rostenkowski, there is now a pending bill, H.R. 825, which represents the consensus approach on how such an independent agency should be established. I am not surprised that this consensus bill re-creates a three-member governing board identical to the governing structure in the legislation my father signed 50 years ago.

The President has given up his support for cutting Social Security benefits which constitutes over 98 cents out of every dollar of Social Security expenditures. But his administration still insists on cutting Social Security administrative expenses even though they amount to less than one and one-half cents out of every dollar Social Security spends.

The American people want and demand a consistent approach to Social Security which will protect all of Social Security—its benefits and its administration. Therefore, while I welcome the President's reassurances that Social Security benefits are safe, I call on him to endorse H.R. 825, the consensus bill introduced by Chairman Roybal and the leadership of the House of Ways and Means Committee to restore Social Security's administrative integrity. Whatever the response, I urge the Congress to move forward in a consistent manner to protect all of Social Security.

STATEMENT SUBMITTED BY THE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS TO THE HOUSE SPECIAL COMMITTEE ON AGING ON H.R. 825, A BILL TO ESTABLISH THE SOCIAL SECURITY ADMINISTRATION AS AN INDEPENDENT AGENCY AND ON THE ISSUE OF REMOVING SOCIAL SECURITY FROM THE UNIFIED BUDGET

The AFL–CIO appreciates the opportunity to submit our views on H.R. 825, a bill which would make the Social Security Administration an independent agency. We also wish to express our views on removing the Social Security trust funds from the unified budget. We commend Chairman Roybal for holding these hearings and for the leadership he has shown on this issue.

On August 14, 1985, the AFL–CIO Executive Council adopted the attached statement on the 50th anniversary of Social Security which includes recommendations for removing Social Security trust funds from the unified budget and for making the Social Security Administration an independent agency. We respectfully request that it be made a part of the record of these hearings.

The social security system is one of the nation's most successful achievements. In one way or another, social security affects the lives of almost every American family. For older Americans, the social security program is the foundation on which their economic security rests. The importance of this program to the nation makes it imperative that the financial integrity and non-political administration of the system be assured.

The AFL–CIO believes that the Social Security Administration must rigorously discharge its responsibility as trustee for those who have built up rights under the system. The program must be kept free from political influence or manipulation geared to the ups and down of the budget and the political process.

INDEPENDENT AGENCY

The AFL–CIO generally supports the provisions of H.R. 825 for the bill would effectively establish an independent Social Security Administration.

It is not good public administration to have this enormous agency, which impacts on just about every American family, operate as a subordinate part of another department. The Social Security Administration (SSA) would operate more efficiently and better meet the needs of beneficiaries and contributors if it were not hampered by the many shifts in administrative policy resulting from short-run decisions about staffing levels and changes in management philosophy that accompany frequent changes of Health and Human Services Secretaries, Social Security Commissioners and their immediate staffs.

On the basis of priorities set by the Department of Health and Human Services (HHS) or the Office of Management and Budget (OMB), SSA has been deprived of needed administrative resources. These agencies have forced upon the Social Security Administration unwise actions which it would not have undertaken if it had been free to pursue a course of action dictated only by the requirements of the Social Security program. The unfortunate experiences endured by tens of thousands of disability beneficiaries under the continuing disability investigation program due to strictures places on SSA by HHS and OMB are a noteworthy and painful recent example.

SSA's excellent administrative reputation has been tarnished because of an antiquated, overtaxed computer system and by insufficient personnel. A recent General Accounting Office investigation showed the agency has an embarrassingly high error rate. An independent SSA would have been able to move quickly to modernize its computer capacity and thereby prevent such a situation from developing into the problem it has become.

Tens of thousands of beneficiaries who made social security contributions throughout their working lives have suffered unfair treatment or improper handling of their benefit claims. Many of these problems would not have arisen had the SSA been able to make independent decisions free from the pressures of political appointees.

An independent, nonpolitical Social Security Administration need not change most of the interrelationship between the agency and other governmental units. For example, ultimate Congressional control over the program would not be changed.

REMOVAL OF TRUST FUNDS FROM UNIFIED BUDGET

A majority of the members of the National Commission on Social Security Reform recommended that the operations of the social security program be removed from the unified budget. They felt that this would help to assure that changes in the pro-

gram would be made only for programmatic reasons and not for objectives that do not relate to the effectiveness of the social security program. AFL-CIO President Lane Kirkland was a member of the National Commission and strongly supported this recommendation.

Since 1969, the financial transactions of the social security systems have been combined, for purposes of economic anaylsis, with the administrative budget and since 1974 have been included within a unified budget which combines regular federal income and expenditures with the self financed social security program. Since the Social Security Amendments of 1983, trust fund operations have been treated as a separate function within the budget. These amendments also provided for the removal of trust fund operations from the unified budget beginning with FY 1992.

Social Security trust funds may be used only for the payment of social security benefits and administrative expenses. However, inclusion of the trust funds in the unified budget leads to confusion in the public mind as to whether these funds are used exclusively for social security programs and how well protected are the social security rights of covered individuals.

The inclusion of social security trust funds within the unified budget distorts decisions concerning both social security and non-social security programs. One direct result has been the misleading use of social security trust fund money as a means of reducing the federal budget deficit. Balancing trust fund income when it is in surplus against non-social security expenditures makes the unified budget deficit look smaller. Even worse, changes in social security benefits are considered not on their merits but on the basis of their impact on the overall budget deficit.

Cutting benefits without making compensating benefit improvements results in a surplus in the trust funds and thereby reduces the deficits in the unified budget. This fiscal slight of hand is repeatedly reflected in Administration and Congressional budget recommendations. The most recent examples are the Congressional and Administration proposals to reduce the budget deficit by freezing or reducing Social Security cost of living adjustments. Such proposals are strongly opposed by the AFL-CIO. We do not believe that the elderly, who in large measure depend on social security payment for their livelihood, should bear the burden of clever bookkeeping to make any budget look better.

Social security is a self-financed program paid for by workers and employers. In no way does it currently contribute to the Federal deficit. Actually, Social Security trust funds are projected to reduce the federal budget deficit by more than $150 billion between now and 1990. In short, social security didn't cause the deficit—actually it make the deficit better and should not be tampered with to meet problems it didn't cause.

Social security claims built-up by past earnings and contributions are not a proper matter for year to year budgetary decisions. The government must rigorously discharge its responsibilities as trustees for those who have built-up rights under the system.

We see no reason to wait until 1991 for social security to be removed from the unified budget. It is essential to protect the program from constant manipulation solely to improve the overall budget picture as soon as possible. Therefore, to protect present and future beneficiaries and to strengthen public confidence in the system, we urge the Sub-committee to support legislation which would exclude social security trust funds from the unified budget beginning with FY 1986.

In order to restore public confidence and improve the administration of the program, the AFL-CIO urges the Committee to recommend that Congress pass legislation creating an independent Social Security Administration and removing the operations of the program from the unified budget.

Statement by the AFL-CIO Executive Council on Social Security and Medicare

Fifty years ago, on August 14, 1935, President Roosevelt signed into law the Social Security Act—one of the most significant and far-reaching pieces of social legislation ever enacted into law. For a half-century, Social Security has been a bedrock of protection for the American people. It is the nation's most successful anti-poverty program.

Before Social Security, retirement for most Americans was a frightening prospect. Social Security is largely responsible for improving this bleak picture of destitution and dependency on private charity. It has done more than any other American program to provide our elderly citizens a measure of economic security and dignity.

Social Security provides more than retirement income. For those now working, it provides insurance for workers and their families against loss of income resulting from a worker's disability or death.

When signing the legislation into law, President Roosevelt described the program as giving "some measure of protection to the average citizen and to his family against the loss of job and against poverty-ridden old age." But he warned it was only a start, "a cornerstone in a structure which is being built—but by no means complete." It is still not complete, but the labor movement can be proud of the role it has played in the on-going efforts to complete this structure.

As a result of the 1983 amendments, the Social Security structure is now solvent and its benefits secure well into the next century. The program is operating at a growing surplus, which reached $13 billion for fiscal year 1986, but there are still calls to reduce its benefits, solely to give the overall federal budget the appearance of a smaller deficit. To assure the financial integrity of this vital progam, Social Security Trust Funds must be removed now from the unified budget.

The Social Security Administration has been forced by the Reagan administration to take action harmful to the program and its beneficiaries. The Social Security Administration has removed hundreds of thousands of disabled from the benefit rolls and threatens to close many regional and local offices, thereby curtailing vital services for the elderly and disabled. Non-political administration of the program requires that the Social Security Administration be made and independent agency.

Most Americans are unaware that the Social Security Act of 1935 included such programs as Unemployment Compensation, Aid to Dependent Children, Old Age Assistance, Maternal and Child Health Care, and Child Welfare Services. While these programs have done much to improve the well-being of millions of Americans, they have lagged far behind legitimate expectations of the role they could play.

Unemployment compensation, largely administered by the States, varies greatly in coverage, eligibility, and benefits, and in most cases is still woefully inadequate. Even worse, fewer than three out of ten jobless workers receive any benefits at all. The essential safety net of other programs launched by the Social Security Act—designed to reinforce social insurance—is riddled with inadequacies in benefit levels and gaps in coverage.

Twenty years ago, Medicare and Medicaid were added to the Social Security structure. Medicare has made it possible for elderly and severely disabled Americans to obtain needed medical care they would not have otherwise obtained. Unfortunately, Medicare beneficiaries are forced to pay more than half of their own medical expenses because of required out-of-pocket payments and failure of the program to cover some essential services. Medicaid, intended to provide health care for low-income families and individuals, has been drastically cut by the Reagan administration and now covers less than half of the poor in nearly all states. In most states, the benefits are inadequate.

As we commemorate these programs, the five decades of progress contrast sharply with the past five years of cutbacks.

The AFL-CIO's challenge in the years ahead is to defend Social Security against those who would undermine it and to complete the structure envisioned by its founders so that the program will better serve the needs of the American people.

STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS TO THE HOUSE SELECT COMMITTEE ON AGING ON "SOCIAL SECURITY—OFF-BUDGET AND INDEPENDENT"

The American Association of Retired Persons (AARP) supports Congressional efforts to depoliticize Social Security by removing it from the unified federal budget and creating an independent agency to administer the program. Both of these actions would strengthen public confidence in Social Security by helping to assure both current and future beneficiaries that Social Security will not be endangered by short-term, politically motivated decision-making. AARP, the largest aging organization representing 20 million members nationwide, congratulates the Chairman of the House Select Committee on Aging Rep. Edward Roybal, and the ranking minority member of the Committee, Rep. Matthew Rinaldo, for their leadership in calling for the removal of Social Security from the unified budget and the creation of an independent agency to administer the program in a stable, professional manner.

I. REMOVING SOCIAL SECURITY FROM THE UNIFIED BUDGET

Social Security should be separate from the unified Federal budget. The Social Security Trust Funds are financed by dedicated payroll tax and funds collected through the payroll tax which cannot be used for any other purpose. Currently, the

Trust Funds are running a surplus and projections are that the system will have surpluses well into the forseeable future. Since the system is financially sound and accumulating surpluses, Social Security is in no way contributing to the burgeoning federal deficit.

For most of its history, Social Security has been separated from the unified federal budget. In FY 1969, the Social Security Trust Funds were moved into the unified budget which contains general revenues. The result of this "merger" has been, increasingly, to subject Social Security to the vicissitudes of the political debate which surrounds the annual budget process. Recent proposals to freeze cost-of-living increases or reduce services to Social Security recipients were not generated by concerns about the financial health or stability of the Social Security program. Rather they were generated by the desire tc show "paper" deficit reductions.

In the 50 years of its existence, Social Security has generally produced a surplus. Since inclusion in the unified budget in FY 1969, these surpluses have served to mask part of the growing Federal deficit. In other words, the true dimensions of the federal deficit are partially hidden by Social Security surpluses, allowing policymakers to avoid some of the difficult choices necessary for real deficit reduction. Unless Social Security is removed from the unified budget in the very near future, this problem will be exacerbated since Social Security surpluses are expected to increase dramatically starting in the late 1980's.

The 1983 Social Security Amendments call for removal of the Social Security Trust Funds in 1992. AARP believes that this schedule should be accelerated to FY 1987. Moving Social Security "off budget" will clearly show the American people that this Congress does not want Social Security to mask the fiscal realities that we face in our national budget, and that the use of Social Security to achieve short-term "paper" savings is not legitimate.

II. CREATING AN INDEPENDENT AGENCY

AARP supports the creation of an independent agency to administer Social Security to assure that the daily functioning of this vital program is put in professional hands on a stable basis. The confidence of the American people can only be maintained if they are assured that the program is being administered in a fair, efficient and professional manner. The creation of an independent agency would be an important step toward this goal.

The Social Security Administration currently serves the needs of over 36 million beneficiaries. It maintains the wage records of 116 million workers, and processes the claims and information requests of millions more annually. This workload will continue to increase as more and more beneficiaries become eligible and the workforce continues to grow. In order to accommodate this growing workload and improve the quality of service to beneficiaries, SSA must function in a stable environment that is conducive to long-range planning and must be staffed by competent, professional management.

The need for stable senior management within SSA is increasingly apparent. Between 1978 and 1983, there were three Commissioners of Social Security, each serving two years or less. Since 1983, there has been an Acting Commissioner. With Commissioners changing every two years, there is little opportunity to establish clear management priorities or to provide consistent direction to the Agency. The vital need for consistent stable management is one of the most powerful arguments for creating an independent agency.

Recent proposals to significantly reduce SSA staff, close or downgrade a significant number of the community-based Social Security offices and contract out important agency functions, appear to be generated by a desire to show short-term budget savings, not by considerations of what is best for the overall management of the agency and the public it serves. Reducing the number of staff and local offices is especially short-sighted since it will result in increases in the error rate and a reduction in the amount and quality of service to Social Security beneficiaries. Moreover, the administrative costs of the program are funded from the trust funds, so reductions would have no real effect on the status of the rest of the federal budget. With an independent agency, the high quality of service which the public has a right to expect would not be sacrificed to short-term savings.

Public support for the Social Security program remains high. But public confidence has been eroded by the financial difficulties which the system faced prior to 1983, the use of Social Security as a "political football" during the annual budget debate and a growing belief that those running the Social Security program do not have the welfare of the program and service to beneficiaries as their primary considerations moving Social Security from the unified budget and creating an inde-

pendent agency to administer the program is an essential step toward rebuilding public confidence in the program. It would be a clear statement to the American people that Congress is committed to protecting the Social Security program for the long-term future interests of all Americans, young and old.

STATEMENT OF FORMER CONGRESSMAN JAMES ROOSEVELT, CHAIRMAN OF THE NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE, PRESENTED TO THE SELECT COMMITTEE ON AGING OF THE U.S. HOUSE OF REPRESENTATIVES REGARDING TAKING SOCIAL SECURITY OUT OF POLITICS

Before the August recess, Congress wisely preserved a full Social Security COLA in the final budget despite insistent demands by many to freeze it next year. If we want to prevent future efforts to cut Social Security, now is the time to take Social Security out of politics. I urge the Congress to seize the momentum created by the COLA victory to take Social Security out of the unified budget and to put Social Security in an independent agency.

Both actions already count on strong bipartisan sponsorship, an essential element in Social Security policy. For the 1.5 million members of the National Committee to Preserve Social Security and Medicare, it is a key point in our Legislative Plan.

President Reagan has already told Senator John Heinz, Chairman of the Senate Aging Committee, that he would like to take Social Security out of the unified budget. Including Social Security surpluses in the government's budget only creates an illusion of lower deficits. Creative accounting, however, cannot lower the government's debt because the bottom line is that money in the Social Security trust fund cannot be spend on other government programs. But as long as Social Security is part of the unified budget, some can seductively argue, as they did this year, that the Social Security COLA should be frozen, Medicare benefits cut or a means test applied to both as a way to "reduce the deficit."

I want the Congress, however, not to stop with taking Social Security out of the unified budget. Finish the job of taking Social Security out of politics by creating an indepenedent Social Security agency. An independent ageny will restore sagging public confidence in Social Security policy making and administration.

Social Security is a long-term insurance contract with America's workers. Beneficiaries have earned their rights to benefits based on contributions made during their working years. Today's beneficiaries and workers should feel assured that promised benefits will remain stable and adequate, despite changes in the Presidency and Congress.

My organization supports H.R. 825 in the House and S. 17 or S. 122 in the Senate. This legislation would establish a governing board of dedicated Americans appointed by the President on a bipartisan basis with overlapping terms. Members of the governing board would be free to give indpenedent policy advice and to oversee the administration of the program in the best interest of the beneficiaries. The day-to-day administration would be put back into the hands of a non-partisan professional administrator.

Creating an independent agency with a governing board does not weaken Congressional oversight or legislative authority. A governing board, however, would insulate Social Security from sudden changes. A governing board would evaluate changes in light of sound social insurance policy and free of short-run considerations.

With this as its mission, an independent Social Security agency should have responsibility for both of the Federal social insurance programs, Social Security and Medicare. Exclusion of Medicare from the new agency would have a negative impact on the mission of the new agency to defend the social insurance basis of the Social Security program. Congress must reject any attempt to disengage Social Security and Medicare or to apply "means tests" or other "welfare" elements to either program.

Social Security was born during the Great Depression and has stood the test of time. Its founders were men and women of vision. They responded to my father's call to "undertake the great task of furthering the security of the citizen and his family through social insurance."

Fifty years later, a new generation of men and women in the Congress is challenged to maintain the security of the citizen and his family. Recently, financing crises and benefit cutbacks have shaken public confidence that workers and beneficiaries would receive Social Security and medicare benefits promised them. This year Congress has broken with the recent past. For the first time since 1981, no Social Security or Medicare cuts are contemplated.

Congress can reassure the American public that this calm is the promise of "clear sailing" rather than the "eye of the hurricane" by taking Social Security and Medicare out of politics. I do very personally appreciate the interest of the Select Committee on Aging in promoting this issue and of course hope that you and your friends will carry the day.

The CHAIRMAN. I would like to ask Mr. Rinaldo, the ranking minority member, to present his remarks at this time.

Mr. RINALDO. Thank you very much, Mr. Chairman.

Before I go into my remarks, I would like to request unanimous consent that Congressman Hammerschmidt's statement appear at this point in the record.

The CHAIRMAN. Without objection, it will be the order.

[The statement of Mr. Hammerschmidt follows:]

PREPARED STATEMENT OF REPRESENTATIVE JOHN PAUL HAMMERSCHMIDT

Mr. Chairman, thank you for convening this hearing today to discuss the removal of the Social Security Trust Funds from the unified budget and the possibility of creating an independent agency for Social Security.

In the next few weeks Congress will be reconciling targeted spending levels with the various appropriations bills. Much of the discussion regarding the removal of the Social Security Trust Funds from the unified budget concerns what effect this will have on the unified budget and the deficit. As we all know, Social Security is funded by payroll taxes and funds can only be used for paying benefits and administrative costs. Because Social Security funds cannot be used for any other purpose, the fund's surplus or deficit does not affect the Federal deficit. The Board of Trustees report on Social Security and Medicare states that the Social Security Trust Funds will have a small surplus from now through 1988 even under the most pessimistic of the four sets of economic assumptions. The report goes on to say that the surplus is expected to increase rapidly at least through the year 2020.

In light of this, Mr. Chairman, it appears that the Social Security Trust Funds are not in any danger now or in the foreseeable future. It seems to me that to continue to link them to the unified budget gives us a false impression of the status of the deficit. In April I introduced H.R. 2154 to accelerate the removal of the Social Security Trust Funds from the unified budget. Such action will help to alleviate the apprehension which many older persons have regarding the future of their Social Security benefits. Further, it will help to minimize the interrelationship between Social Security and the budget deficit. Finally, when changes are required, it will encourage the same type of bipartisanship that occurred during the discussion on the Social Security amendments in 1983.

I'm pleased that today's hearing will focus on both the removal of the trust funds from the unified budget and the creation of Social Security as an independent agency. It is my hope that this will enable us to more clearly see the effects that each proposal would have on the Social Security System. I'm looking forward to hearing from our distinguished witnesses, and thank them for taking the time to be here today.

STATEMENT OF REPRESENTATIVE MATTHEW J. RINALDO

Mr. RINALDO. Thank you, Mr. Chairman, for responding to my request in scheduling this hearing on removing Social Security from the unified budget. I am hopeful that through our efforts today, we will be able to help push legislation to the floor as quickly as possible to remove Social Security from the Federal budget.

In 1982, I wrote to Alan Greenspan, chairman of the blue ribbon commission whose recommendations form the basis for the 1983 Social Security Amendments.

I strongly urged that the Commission take up the issue and recommend that Social Security be removed from the unified budget. The Commission responded to my recommendation, and they recommended that Social Security be removed immediately.

Unfortunately, Congress voted to delay the implementation of this recommendation until 1992. I think the error of that judgment has been borne out by the events of the last 2 years.

Only a few weeks ago, Congress adopted a budget for the coming fiscal year only after we finally put the issue of Social Security behind us. But this year's difficulty could happen next year as well, unless we act now.

As long as Social Security remains in the unified budget, we will run the risk of proposals that seek to tamper with the system in order to supposedly reduce the deficit. I believe that is fundamentally wrong.

Social Security should not be used as a scapegoat for covering up deficit spending in other programs. It is misleading. It is unfair to our senior citizens, and it undermines the purposes of the system.

I would also like to point out a couple of facts so that all of us have the correct perspective on this issue. First of all, Social Security is not contributing to the deficit.

As a matter of fact, this year, the Social Security surplus in the unified budget is covering up in effect over $6 billion in deficit spending caused by other Government programs.

Second, Social Security funds cannot be used to offset deficit spending in other programs, even though the unified budget makes it appear that way. Social Security funds by law can be used for only three specific purposes:

One, to pay benefits; two, to pay administrative expenses; and three, to be invested in Government securities.

In his press conference on August 5, President Reagan said, "Social Security as part of the deficit is nothing but a bookkeeping gimmick."

He went on to point out that attempting to "reduce the deficit by reducing Social Security benefits is a snare and a delusion."

I am glad that the President made that statement, because he was completely correct. In fact, Mr. Chairman, I was somewhat surprised by the President's remarks. I was surprised because in June of this year, I wrote OMB Director Dave Stockman, pointing out that Social Security does not contribute to the deficit, and urging that it be taken out of the unified budget.

Mr. Stockman replied on July 16, less than 3 weeks before the President spoke, and in his reply, he reiterated the administration's view at that time, that Social Security belonged in the unified budget.

Mr. Chairman, I would like to ask unanimous consent that this exchange of correspondence between former Director of the OMB Dave Stockman and myself be included in the record at this point.

The CHAIRMAN. Without objection.

[The information follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, DC, June 14, 1985.

Hon. DAVE STOCKMAN,
Director, Office of Management and Budget,
Old Executive Office Building,
Washington, DC.

DEAR DAVE: It was good being with you at the New York Stock Exchange Dinner, and I want to commend you on your presentation. I also want to thank you for your

graciousness in responding to my question regarding the Social Security COLA. You're a good friend.

Despite our exchange, I still do not understand the Administration's view that a freeze in the cost-of-living increase for Social Security benefits would reduce the Federal deficit. As you know, the Social Security Act is quite specific in spelling out those purposes for which expenditures may be made from the trust funds:

"There are hereby authorized to be made available for expenditures, out of any or all the Trust Funds, such amounts as the Congress may deem appropriate to pay the costs of the part of the administration of this title, title XVI, and title XVIII for which the Secretary of Health and Human Services is responsible . . ." (42 USC [illegible](1)(A))

Benefit payments required to be made under section 223, and benefit payments required to be made under subsection (b), (c), or (d) of section 202 to individuals entitled to benefits on the basis of the wages and self-employment income of an individual entitled to disability insurance benefits, shall be made only from the Federal Disability Insurance Trust Fund. All other benefit payments required to be made under this title (other than section 226) shall be made only from the Federal Old-Age and Survivors Insurance Trust Fund." (42 USC 401(h))

The law further stipulates that it "shall be the duty of the managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals." (42 USC 401(d))

Social Security funds cannot be used for any purpose beyond the three explicit statutory provisions mentioned above (i.e., payment of benefits, reimbursement of administrative costs, and investment of any excess).

Should Congress enact the proposal adopted by the Senate of a one-year freeze in the Social Security cost-of-living increase, for an estimated three-year savings of $21.9 billion, we would increase the amount of excess in the trust funds. Because any excess, by law, is available for investment, the freeze conceivably would reduce the government's need to borrow money from private capital markets by transfering a significant portion of the government's need to borrow from the private sector to the Social Security Trust Fund. Accordingly, this would increase the subsidy by which Social Security underwrites defict spending by the Treasury, a policy which I am sure you will agree should be avoided. It must be emphasized, however, that the freeze does not reduce deficit spending.

In fact, a freeze does just the opposite. Under figures projected by the Congressional Budget Office, a freeze in the cost-of-living increase for Social Security alone would increase Federal expenditures in other programs by $859 million. We would thus be *increasing* the Federal deficit by that amount. The Social Security trust funds, because they cannot by law be used for any other purpose, would not go toward reducing the Federal government's indebtedness.

It seems to me that pursuing a policy whereby Social Security underwrites deficit financing at the Federal level obscures the general fiscal condition of the government. It is worsened when the error is compounded by attempting directly to link social security benefit increases to the deficit: by increasing the degree to which Social Security funds underwrite deficit-spending by the government, it puts off the day when we will have to put our fiscal house in order.

Under current law, Social Security is to be taken out of the unified budget in Fiscal Year 1993. Yet in 1990, OASDI is estimated under the Administration's budget projections to have a gain in income for that year alone of $67.4 billion. That means the Treasury could continue its deficit spending while being "sheltered" by the Trust Funds. By contrast, if we leave the law untouched we will face, in FY 1993, an "instant" deficit in excess of $70 billion merely by removing the Trust Funds from the unified budget, even thought the fiscal situation of the Federal government will not changed in the least. In my view, we ought to stop this charade immediately so that we can come to grips with the nation's fiscal situation.

Dave, if you could provide me with a written explanation, it would be very helpful to me in attempting to explain the Administration's position in my district, which is heavily democratic and consists of a high percentage of senior citizens.

Best personal regards, and thanks again for your courtesy and cooperation in this matter.

Cordially,

MATTHEW J. RINALDO,
Member of Congress.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, July 16, 1985.

Hon. MATTHEW J. RINALDO,
House of Representatives,
Washington, DC.

DEAR MATTHEW: Thank you for your letter of June 14, 1985 concerning Social Security and the Federal budget. I enjoyed seeing you at the New York Stock Exchange Dinner, and I greatly appreciate your frankness and determination regarding the relationship between Social Security and the Budget.

I cannot agree with you more that we must come to grips with this Nation's fiscal situation. It is absolutely essential that we substantially reduce projected Federal Budget deficits.

You are correct that Social Security funds are dedicated to a few specific purposes and thus may not be used to fund other programs. The key to understanding this complicated issue is one fundamental point: Social Security is a *Federal* program, and changes in the level of Social Security spending or receipts affect the amount of total *Federal* spending or taxation. In other words, changes in Social Security alter the total resources the Federal government takes from or spends in the economy. As the Congressional Research Service has noted, "the total governmental deficit would be the same regardless of whether social security were 'on' or 'off' budget."

Enclosed are two papers by the Congressional Research Service on the relationship between Social Security and Federal finances that I hope you will find useful.

Thank you again for sharing your thoughts and concerns with me. Please let me know if I can be of further help.

Sincerely,

DAVID A. STOCKMAN,
Director.

Mr. RINALDO. In April of this year, I introduced legislation to remove Social Security from the unified budget, and I am pleased, Mr. Chairman, that you and many others saw fit to cosponsor my bill, and I certainly appreciate your efforts in this direction, and your support.

In my view, Congress ought to take up this measure without delay. I certainly intend to do all that I can to see that that is done, because in my view, it is about time we quit using Social Security as a political football.

I think it is dead wrong, and Mr. Chairman, I want to thank you once again for your support in this area.

The CHAIRMAN. Mr. Rinaldo, may I thank you and compliment you for your excellent statement which you have made today, and for the article that you wrote and was printed in one of the Nation's most prestigious journals, the Christian Science Monitor.

The Chair will deviate from its regular procedure only to recognize the presence of the committee's youngest member. This person is still inexperienced. He doesn't know too much about Social Security, but he had a birthday yesterday. He was 85 years old, and that is Mr. Senior Citizen, Claude Pepper.

Senator Pepper, you are recognized for 5 minutes.

Mr. PEPPER. Thank you very much, Mr. Chairman, my colleagues on the committee, ladies and gentlemen.

I am sorry to have to be a little tardy in arriving here on account of another meeting this afternoon, but I am deeply interested in the subject of the removal of Social Security, because I might get old enough sometimes to have to rely on Social Security, and I want to be sure it will be solvent, sound and strong.

Mr. Chairman, I would like to offer for the record a statement that I have here. I will just say this: I feel that Social Security is in

a sounder position financially and politically than it has been in a long, long time, if not ever.

I am gratified that our President withdrew his support from the effort of the Senate Budget Committee to cut Social Security COLA's. I read that as an indication on the part of the President that during the remainder of his term, he does not propose that his administration shall make any further efforts to cut Social Security. I hope I am right in the conclusion that I derive, and that the President is taking that position.

Furthermore, it was generally the opinion of the Social Security Commission, when we made our report to the Congress, that there would be an immediate removal of Social Security from the unified budget, but it got delayed until 1992.

It has well been pointed out by my distinguished colleague here, and there is no further reason to keep Social Security in the unified budget. In fact, President Johnson put it in there in his time in order to strengthen the appearance of the budget before the Congress and the country.

Today, Social Security is in a sounder economic condition, more soundly solvent than I think it has been in a long, long time, if not ever. We put $163 billion of new money into the Social Security Program in 1983.

I think we have satisfactorily allayed the fears and the concerns of the young people now, that there wouldn't be any social security when they got eligible to receive their benefits, and that there wouldn't be any money.

I am sure that my distinguished chairman has that experience all over the country and other members, and I am gratified that the number of young people that walk up to me all over the Nation when I travel, they say, "We want you to know how much we appreciate what you are doing for social security." Those are young people. They not only know of older people who are the beneficiaries of the great program, but I think they have their faith restored that they do have something upon which they can depend when they come to retirement age.

Mr. Chairman, I commend you for holding this hearing. I hope the Social Security Program will be restored to its status as in the early days of its history, so it will be operated and administered by a bipartisan commission, a separate and distinct agency.

The CHAIRMAN. Thank you, Claude.

Mr. Bauer, I would like to get back to your testimony, and take my 5 minutes questioning members of the panel.

You stated in a recently completed survey of your membership, 97 percent supported independent agency status, and you went on to say that 84 percent favored quick removal of Social Security trust funds from the unified budget.

When you say our membership, did you in fact send out a questionnaire to every one of your members?

Mr. BAUER. That is correct, Mr. Chairman. We sent surveys out to 4,000 members and a little under one-half returned the survey. I have submitted as part of our written comments the results of that survey.

The CHAIRMAN. The margin of error is how much?

Mr. BAUER. Much less than plus or minus 5 percent. Statistical validity is obtained with 20 percent or more return, and we far exceeded that.

The CHAIRMAN. You would say your survey is statistically correct?

Mr. BAUER. Yes.

The CHAIRMAN. The questions with regard to Medicare, should Medicare part A and B be included in an independent Social Security agency? The answer was 79 percent and 18 percent said no.

On the other hand, when you asked the same question with regard to Medicaid, it was just the reverse. Can you tell the committee why you think that reversal came about?

Mr. BAUER. The reason for that is, we are already actively administering the Medicare Program in Social Security offices throughout the Nation.

The HCFA has the literal responsibility for the program. People that have questions about Medicare come to their local Social Security office, and have no convenient access to the intermediaries who furnish the services.

We deal with Medicare, day in and day out, and establish a commitment to those programs. Medicaid is run by the State and local welfare agencies, and people that have questions about their Medicaid status will go to their local Social Services Department.

The simplified answer is, we are actively administering the day-to-day operations of the Medicare Program now as far as the public is concerned. Whether we administer it in the title of any new act, we will still have people coming into our offices.

The CHAIRMAN. Are you also administering State disability agencies?

Mr. BAUER. They are under contract to Social Security.

The CHAIRMAN. But you are in fact—have oversight capability with regard to State disability agencies?

Mr. BAUER. Most definitely.

The CHAIRMAN. That is the reason why the answer was yes to the question, should the State disability agencies be taken over by the Federal Government? The truth of the matter is, they are already pretty much under the control of the Social Security Administration?

Mr. BAUER. Absolutely. Certainly, we have to train them, provide them with their budget, although they are State employees and the decisions they have to make, we ultimately have to answer for.

The CHAIRMAN. What I am getting at, how would the transition be made? Would they then become Federal employees?

Mr. BAUER. That is what our membership would like to see, because in many senses, they are, except by title. We flow the money through the State to these people.

The CHAIRMAN. One last question for the three members of the panel, the administration proposes a 20-percent cut in staff, and they say that would have no effect in the number of Social Security offices that it will be closing.

Is that your assessment of the situation? What do you think of that?

Mr. BAUER. Under current conditions, we could not maintain the number of offices we now have with a 20-percent cut in staff.

In my own situation in North Dakota, if I had 20 percent less staff than I now have, I could not maintain those three facilities as full service facilities. I would have to consolidate, and people would have to travel 100 miles or more to get to one of my remaining offices, and I think this would be true throughout the United States.

The CHAIRMAN. Mr. Clayman, do you agree a 20-percent cut or any cut at all would have a drastic effect on Social Security as a whole?

Mr. CLAYMAN. Obviously, a 20-percent cut would, and it would be a very serious consequence. The ordinary person doesn't properly understand the ordinary elderly, doesn't understand all the ramifications of Social Security or health care for that matter. They are concerned when they get a communication from the Social Security Department. They need help. And as a matter of fact, we try as best we can in our organization, and other senior citizens organizations to develop some people who have a capacity to give advice and counsel.

But they can't do it in the same fashion as is being done now. I almost automatically feel that the cut by 20 percent would be a serious cut in the welfare of senior citizens.

The CHAIRMAN. Thank you. My time has expired. The chair recognizes Mr. Rinaldo.

Mr. RINALDO. Thank you, Mr. Chairman.

Mr. Clayman, earlier this year I wrote to every member of the Leadership Council on Aging, asking them to endorse my legislation which would remove Social Security from the budget. I received endorsements from the American Association of Retired Persons, the Gray Panthers, the Villers Advocacy Center.

In fact, I could go on and on. There were 14 different organizations who responded affirmatively, but I didn't hear from your group. Could you tell me now if your group endorses that proposal?

Mr. CLAYMAN. We certainly do. If you didn't hear from our group, I want to apologize for our group, because that is a point of view we have held for a long, long time. It probably got caught in the bureaucratic maze as happens in government, I guess.

Mr. RINALDO. You have one of those, too. OK, thank you.

Let me ask the entire panel, do all the members of the panel agree it should be removed from the budet as quickly as possible?

Mr. CLAYMAN. We have already said so.

Mr. RINALDO. Unfortunately, I got here a little late. Mr. Clayman, in the March 1985 issue of the NCSC newsletter, there is an article by Bob Ball on the COLA freeze. Unfortunately, I disagree with some of his statements. In it he says that "because of the 1983 amendments, Social Security is already helping to reduce the budget deficit in the consolidated budget and will do so for a long time."

Unfortunately, that is not a correct statement. That statement is wrong. Unfortunately, his remarks don't take into account the fact that Social Security funds by law cannot be used for any purpose other than paying benefits, paying administrative costs, and being invested in Government securities.

As I stated in my opening remarks, don't you think that this type of statement really deludes people, particularly when it comes from a former commissioner of Social Security? Doesn't it obscure

the nature of Social Security and in effect gives ammunition to those people who think Social Security should remain in the budget, and Social Security funds somehow by some magic can be used to reduce the deficit?

Mr. CLAYMAN. I obviously may have quickly read that statement, perhaps not. I haven't seen it for a long time. All I can tell you is that in many conversations with Bob Ball, his conclusions are to the contrary.

Mr. RINALDO. Let me state this: His conclusions were that we should not freeze the COLA. I agree with that conclusion. It was this part of his statement that I disagree with, specifically where he said Social Security is already helping to reduce the deficit.

It doesn't reduce the deficit at all. In fact, it makes it appear the deficit is less than it is, which really deludes the public and which is politically wrong in fact, because we are misleading people when we say that we have less of a deficit than we really do.

For example, if we don't take it out of the budget, and we leave it in there, I would imagine by 1992, if we have a surplus of about $70 or $80 billion in Social Security at that particular point in time, and it suddenly gets pulled out, then we are going to increase the deficit instantaneously by $70 to $80 billion, and everybody is going to wonder what happened. Because right now it is just completely wrong and misleading to have it in the budget and use it in effect as a guise to reducing the deficit.

Mr. CLAYMAN. I must read that article, because on the issue we are talking about today, Bob Ball is strongly for eliminating it from the unified budget indeed very strongly. As a matter of fact, he was one of the early teachers of mine on that subject. And I know he still holds fast to that point of view. If he were here he would state it unequivocally.

Mr. RINALDO. I am very glad to hear that.

Mr. CLAYMAN. What you read to me, I must look at, because I must read the entire statement. I can't comment.

Mr. RINALDO. Sure, I appreciate that. Thank you. I have no further questions.

The CHAIRMAN. The Chair recognizes Mrs. Meyers.

Mrs. MEYERS. Mr. Chairman, since I wasn't here last year when this was done, I presume that what has been—and I have asked for an explanation of it because I get questions nearly everywhere I go about, "does Social Security really affect the deficit?" And my explanation to them has been that we are using Social Security funds to borrow from, so that we don't have to go to the open market to borrow moneys and that therefore Social Security helps because it saves interest moneys and that that is why I believe Congress put off moving this out of the budget until 1992.

This is what——

Mr. RINALDO. Would the lady yield?

Mrs. MEYERS. I would like a response to that. My thinking is, I would like to get it off budget as soon as possible. But I thought that the thinking of Congress was, when they passed this legislation last year, that we had been borrowing from it. It is not an appropriate use, maybe, of Social Security funds, but that we had been doing it, and that it ultimately saves us in terms of interest moneys.

Mr. RINALDO. If we take it out of the budget immediately—the fact of the matter is we will then be showing the true deficit, and what we borrow will be more accurately depicted under the present system.

For example, if Social Security has a $100 billion surplus, for illustrative purposes, it appears that the deficit is a $100 billion less than it is and it really is not because Social Security Trust Funds can't be used to build a dam or for the Food Stamp Program or can't be used for any defense procurement legislation funds.

Social Security funds cannot be used for any other purpose except the payment of benefits and the administration thereof and it should really be moved out of the budget and put into a separate budget. And, second, I think more importantly we will be doing all of the senior citizens of this Nation a great service, because once we do that I believe we will eliminate Social Security once and for all as a political football, and put that issue to rest.

We won't have people writing to us concerned they are not going to get the full amount of their benefits, concerned there is going to be a COLA freeze, concerned there is going to be a cutback. And I think we will be rendering a great public service in that respect. And, second, we will be depicting and showing the budget deficit with great accuracy regardless of who is in the administration, who is running this country. I feel that is the way it should be.

Mrs. MEYERS. I agree with you on all points. What I guess I was trying to ascertain was the reason for the setting of the year 1992, when Congress decided to move it off budget. And I was told that it was to give ourselves some time to get our own house in order and to set it straight as far as the deficit, because I was also told, and I don't know whether this is accurate or not, that we would not be able to borrow if it was separated and set off budget, that we would not be able to borrow at that time from those funds so, therefore, that that is the reason we waited until 1992.

I think it may be well to note that it isn't just Social Security. We also use the highway trust fund in this way, which I think is also an inaccurate depiction of what is happening there because, through this obligational authority, we withhold about 7 to 10 cents from all the highway trust fund dollars, and they are in the general fund and on-budget. And we use those funds to help during this deficit period. I think that is inappropriate also, so I am agreeing with you.

I am just wanting to make sure that I have had my facts straight.

The CHAIRMAN. Anything else, Mrs. Meyers?

Mrs. MEYERS. No, thank you.

The CHAIRMAN. The Chair recognizes Ms. Snowe.

Ms. SNOWE. Thank you, Mr. Chairman. I would like to thank the panelists, as well, for their testimony here today. I am in general agreement with much of what you have said with respect to both initiatives. I would like to ask several questions.

First, do you view the independent agency as being a panacea for dealing with the problems the Department has had in administering the Social Security Program?

I haven't decided in my own mind how the independent agency would resolve many of the internal problems the Department has

experienced with respect to the Social Security Program. I would like to have you respond as to how you think it would solve some of the difficulties that have been encountered.

Mr. CLAYMAN. Whom are you addressing?

Ms. SNOWE. Any one of you.

Mr. HARRIS. Virtually every problem that this committee, the Committee of Ways and Means, has dealt with for the last 10 years has its roots in administration of the Social Security Programs, whether it is disability, whether it is the so-called debt management initiative or overpayment problems, problems with representative payees, problems with inaccurate benefits.

All of them in their own origin began because there were insufficient resources or there was poor management. And I would like to say it was not because of the incompetency of the employees or the incompetency of management in this instance. It was simply that there was too much to do by too few people.

To have an independent agency which can establish its own budget under H.R. 825, can establish a work force plan on the 2-year budget, can manage its own personnel budget, its own use of realty, its space, that will permit that organization to establish itself on a professional level, to do its business as a professional organization, which is what it should do.

Mr. CLAYMAN. In terms of management, let me add another little note. I suppose all of us know the trauma that takes place in any department, big, large or otherwise, when a new administration comes in. It is a period of new leadership. There is a period of disarrangement. There is a period of questions, doubts—what are the new tactics; what are the old tactics? And this has to affect the efficiency of the personnel. If we had a separate, independent operation, the Commission would change from time to time and even techniques might change, but there will be a sound prospect of creating a firm and abiding principle of continuity, which in my judgment could be expected to improve the prospect of the program running on a reasonably even keel.

I assume there would be some suppression of political background so that it is bipartisan. And this is enormously important, it seems to me—and we didn't make enough of it in our basic statement. I want to amplify that point. The problem of continuity, the problem of not injecting sudden new leadership, new ideas which can be as wrong as right.

Mr. BAUER. First, I would like to say I have been an admirer of yours since I worked several years ago for Senator Mitchell from the great State of Maine. I became familiar with your work then.

Ms. SNOWE. Thank you.

Mr. BAUER. The independent agency is certainly not a panacea. If we were an independent agency, it would require a lot of hard work to get us back on track, and it won't happen overnight. But the things that are happening now as we try to focus our attention on the important issues, we start having to deal with problems like OPM coming in with operation bulge and saying we need fewer supervisors.

As we are trying to focus on new computer systems, to modernize and get back to where we simply should be in today's computer age, we have to deal with things like OMB's 20-percent staff reduc-

tion proposal over 5 years. This takes management time, it hurts the morale of our employees. All this is coming at a time when Federal employees have been under attack in the generic sense, and employees are down, no pay raise, this type of thing.

It is very difficult to keep head long into the rush that we need to modernize our systems, to get us back on track toward serving the American public very efficiently.

Ms. SNOWE. A second question: Are your organizations pushing the Ways and Means Committee to support both initiatives and have them enacted in tandem, or are you making either of the initiatives a priority? What is your preference, and what are your organizations doing in this respect?

Mr. BAUER. I can certainly speak for the Association of Management Associations, Social Security managers, and we are pushing both of them equally. We feel they are vitally important.

Mr. CLAYMAN. That makes sense, it seems to me. I don't know what my preference is. It would be personal rather than organizational. But they are both sound ideas, and there is every reason to put them in tandem unless some of you in Congress get excited about that approach. And I don't see why anybody in Congress would be excited about the approach if they were for both, because the time may indeed be of the essence, and we don't want to dawdle too long and develop a different strategy for one as against the other and get engrossed in all the jargon and legalisms of bills as they go through Congress.

Ms. SNOWE. Mr. Harris?

Mr. HARRIS. Speaking on behalf of AFGE, AFGE believes, yes, those two should move in tandem, and as soon as possible. We also took that resolution to the AFL–CIO Executive Council just 3 weeks ago. They passed that resolution. It is their position they should be adopted together.

Also speaking as a member of the Executive Committee of Save Our Security Coalition, we met, and we all concur unanimously they should move together now.

Ms. SNOWE. Mr. Harris, one question of you. You mentioned in your remarks something about contracting out computer services. Is there any problem with confidentiality in that respect, or do you foresee any?

Mr. HARRIS. I cannot see how the computer services or all of the vital records of Social Security could be contracted out without violating the Privacy Act.

Ms. SNOWE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Harris, it is my understanding you are a member of the Save Our Security Coalitions Committee on the Independent Agency.

Mr. HARRIS. Yes, I am.

The CHAIRMAN. Can you tell the committee who the members of that committee are, and second, do you feel they would support or——

Mr. HARRIS. The chairman of the committee is Bob Ball. In addition to myself, I believe one other member right now is Larry Smedley of the AFL–CIO. And, as always, ex officio members of all committees—Wilbur Cohen and Dr. Arthur Flemming. I know all

of them feel very strongly the independent agency issue should move.

The CHAIRMAN. Well, after hearing those names, I would assume that the committee or coalition, once it took action, if they deemed it necessary to do so, that they would in fact endorse H.R. 825. I think that these individuals do endorse H.R. 825 at the present time. Is that a pretty correct assumption on my part?

Mr. HARRIS. I hope, Mr. Chairman, you will see a lot more of us in the weeks to come as we come down here lobbying to see that H.R. 825 and other legislative moves.

The CHAIRMAN. In favor of H.R. 825, I would welcome all the lobbying you can generate.

Another question, Mr. Harris: I think it was Mr. Bauer who mentioned Operation Bulge under which SSA must reduce the number of its midlevel managers by 2 percent per year. Now, do you believe that SSA has too many managers in grades GS–11 to grades 15?

Mr. HARRIS. Many of those people that are allegedly managers—and mind you now, any union who says there is not too many supervisors isn't worth it. I guess I will always say there are too many supervisors. But most of the positions of that grade in Social Security are analysts, computer programmers, technicians that are in fact represented by this union, and they will be affected by this move just as my colleague here.

Considering that, for example, in computer programmers, Social Security runs up to 30 percent short of what they need. This is an insane proposition by OPM.

The CHAIRMAN. In the event we were successful in getting an independent agency, the commissioner or the person who is assigned to manage Social Security, the top person, that individual would no doubt have the power to install efficiency measures, would he not, under your proposal?

At least I find it to be so under what I believe to be the proper way of conducting an independent agency. What is your thinking with regard to that?

Mr. HARRIS. This union stands ready to meet with the current commissioner or any commissioner to set good standards, to improve the public service, and yes, he would have that authority. We would hope that they would exercise it.

The CHAIRMAN. By providing efficiency measures, it may reveal, yes, we may have too many managers here, but not enough somewhere else, and whatever those efficiency measures dictate should be done, should be done by the person assigned to that independent agency when the time comes.

Now, I have asked both Secretary Heckler and Acting Commissioner McSteen to estimate the number of Social Security field offices that they expect to close under the new procedures. Now, all they do is assure the committee they have no massive assault in mind.

Do you gentlemen have any idea—have you heard via the grapevine or anywhere else how many offices are due to be closed?

Mr. HARRIS. It is our understanding there are budget estimates or assumptions over the next 2 years targeting between 150 and

300 offices to close. It is included in their justification for appropriations they delivered to Congress this year.

The CHAIRMAN. The rumor I hear is beyond that. Mr. Clayman, what have you heard?

Mr. CLAYMAN. The statistics we got, and they may have come fron SOS, that one that I read off to you, there was supposed to be anticipated 377 offices likely to be closed—likely, not definite; 382 which may be closed or downgraded, and then the reduction of the work force by 17,000 by 1990.

I think that may be something we will have to take another look at, because these are figures that we have received from the SOS coalition, which has been doing some work on this.

The CHAIRMAN. In establishing an independent agency, it may at that time—or the circumstances at that time may reveal that, yes, perhaps certain offices should be closed and may be operated somewhere else.

Now, is it your position that offices should not be closed simply because of the recommendations at the moment or under an independent agency? Would you consider supporting an effort that would put in place an efficiency study and then abide by that study and support the commissioner in its implementation?

Mr. CLAYMAN. We would feel more secure if it were done by an independent agency rather than in the present fashion. And none of us, whether part of the senior citizens movement or the labor movement or professionals in this field, none of us can say now or should say now that never, never, never will a single office be closed.

And under the appropriate circumstances there always should be a search for efficiency, but not at the cost of human life, as it were, not at the cost of inconvenience and unhappiness of the people that the program serves. Is that reasonably clear to you.

The CHAIRMAN. Well, an independent agency, to me, means an agency that is clear of political pressures, administered by an individual who is an excellent administrator and who has in mind only the best interest of the agency that he is operating. By that I mean the best interests of those who are the beneficiaries of the benefits that can be derived from that agency.

Do you agree with that assessment, Mr. Clayman?

Mr. CLAYMAN. There will be no perfection in an independent agency. That is too much to ask. People are people wherever they are, the same kind of rivalries, the same kind of associations, the same kind of back-biting.

All that sort of thing is bound to be there, but not to the same extent where there is massive political pressure, get rid of these offices, they got to many and it doesn't cut the deficit. We won't have that kind of thing, and that is what the motivation is now.

The CHAIRMAN. Well, those who have been opposing our bill have told me, well, it is going to cost more. We are against it. My present assessment is that while it may not cost very much less, it will still be less, perhaps by a fraction, than the cost of operation at the present time.

But in saying that, I still believe that it can be more efficient than it is at the present time. Let's say it is the same cost, but more efficient. What do you think of that, Mr. Clayman?

Mr. CLAYMAN. If efficiency, honest efficiency, is the rule of the game, then it should prevail, but that isn't the situation now. The situation now is for political purposes; namely, to make the deficit look better, just cut the hell out of it, and without any serious reservations in terms of human needs that need to be satisfied in a program of this nature.

That is the difference. But as I say, I mean I don't sit here and proclaim that it is going to be the finest, purest system in the whole world. I hope so.

The CHAIRMAN. Well, what we are saying and what we actually believe is it will be better than it is at the present time.

Mr. CLAYMAN. I am for that, and I believe that.

The CHAIRMAN. Do you believe that, Mr. Bauer?

Mr. BAUER. Absolutely. I would concur in that. I would think management would have the freedom to manage the system in a cost efficient manager for the tax paying American public, and yet still totally satisfy the interest of recipients of our program.

For example, on service delivery review, it is a good, sound management practice to review your point of service delivery, but is not a good practice to do it only in light of budget constraints. It has to be done looking at the full picture.

The CHAIRMAN. Mr. Harris, Mr. Bauer, Mr. Clayman, and I are in agreement. May I ask what your opinion is? Do you agree with us?

Mr. HARRIS. The only hesitation I would have to agreeing is that to use a single criteria such as efficiency would be an error. I think that the quality of public service has got to be the most crucial element here.

The CHAIRMAN. Do you think the quality of service would increase under an independent status?

Mr. HARRIS. To me that is the one most important reason to do it, and it is the reason that we are seeking the legislation.

The CHAIRMAN. Are there any further questions from members of the committee?

Ms. SNOWE. I have a further question I meant to ask earlier. I was just reviewing part of the National Commission on Social Security Reform's Report from 1983, and some of the committee members opposed the recommendation of removing Social Security from the unified budget because, first, they said Social Security funds represented a significant proportion of Federal outlays, and then, second, that the Social Security trust fund would be highlighted, would be more visible to the public than if it were in a separate trust fund.

How do you respond to those two issues, particularly the latter one, because we have obviously had problems with the Social Security trust fund which Congress attempted to address several years ago.

Would those problems have been as visible and as prominent in a separate trust fund as they would have been as part of the unified budget? Mr. Bauer, would you like to address that?

Mr. BAUER. Yes. I think that they would be much more prominent for several reasons. No. 1, whether we are in the unified budget or not, you run into the problem if the trust fund runs out of money. There is no place to pay the benefits from. And that is

what led to the crisis of confidence. That is not going to make a difference whether in or out of the unified budget.

If you take us out of the unified budget, you will actually be each and every year publishing a Social Security budget, and that totally gets glossed over and lost in the large picture of the $900 billion Federal budget right now. People don't realize—many younger individuals do not believe Social Security will be there when they retire. They don't see what surplus Social Security trust funds now have that would be highlighted if you took us out of the unified budget.

Mr. CLAYMAN. Were you talking about the 1983 report?

Ms. SNOWE. Yes.

Mr. CLAYMAN. Remember, that was a period when the administration very seriously wanted to cut that deficit come hell or high water. And I think that commission was reflecting the then point of view of the administration.

If I may say so, they were very conservative. I appeared before that commission—enormously conservative. There were administration votes about 12 to 2 or something like that. And if that commission were to meet, today when the President has spoken out on eliminating the unification of the budget and eliminating it from the calculation of the deficit, they would be utterly different.

They were reflecting the administration's point of view at that time.

Ms. SNOWE. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Ms. Snowe. This hearing today—I am speaking directly to the witnesses—has resulted in an agreement between the witnesses, the chairman, and most members of the committee. I want the record to show, however, invitations were sent to the administration, which has indicated that they are in disagreement, at least on the issue of making the SSA an independent agency.

It has been decided they did not wish to testify at this time, but they have an open invitation to testify before the committee and tell us why it is their in opposition if that is the case. I have suggested two dates in October when those hearings could be held. But the invitation is open.

I am delighted to hear the testimony today because—well, for three very important reasons, I think. I think it was established already by testimony given that an independent agency would bring about more efficiency into the Social Security System, and I don't know of anyone who may be in opposition to efficiency.

It was also indicated that it will increase the quality of service. This is the quality of service that goes out to the beneficiaries across the country, and that is most welcome. But then I think the last and final point that was made is one of great importance, and that is that it will increase the confidence of the younger generation in the Social Security System as a whole.

That confidence just has to be built up, and the best way that that can be done is to have an independent agency with its own budget on an annual basis present to the American people—not only the budget of operation, but their so-called profit and lost statement if one may call it that—presenting that to the people of

the Nation to let them know that if there are any rumors to the contrary, that the Social Security System is not going bankrupt.

I think that is one of the most important things we talked about today. Now, I would like to thank each and every one of the witnesses for their excellent presentation. I also would like to thank you for taking time to appear before the committee. I know you gentlemen are busy, you have organizations to run, and we greatly appreciate the fact that you took this time to testify before this group.

If there is one thing that is clear from the testimony, it is that there is a growing consensus for the need to pass legislation; to give back to Social Security the budgetary and administrative independence which is its heritage. And I think if we work together, perhaps even this year, something can be done about this problem.

I thank each and every one of you.

Mr. CLAYMAN. Mr. Chairman, if I may say one thing.

The CHAIRMAN. Proceed.

Mr. CLAYMAN. I would like to express at least my appreciation. It is rather unusual that there is a bipartisan spirit in this meeting, and from both sides I have heard marvelous observations that warms my old heart.

The CHAIRMAN. Thank you, Mr. Clayman. Thank you, gentlemen.

The hearing is now adjourned.

[Whereupon, at 3:30 p.m., the hearing was adjourned.]

APPENDIXES

Appendix 1—List of Social Security Offices Which Have Been Affected or Are Vulnerable to Closing, Consolidating or Downgrading

SOCIAL SECURITY OFFICE CLOSING TRENDS 1981-1985

FACT: Between 1981-1985 twenty-seven (27) Social Security offices have been or will be closed. Only three have been or will be opened. Fourty-one offices have been officially downgraded while only 16 have been upgraded. (See Table Below).

FACT: In October 84, SSA informed its Regional Commissioners that they were being authorized to downgrade or close offices on their own authority. Authority to open or upgrade a facility, however, specifically remained with the Central office.

FACT: More than half the closures (anywhere from 14 to 20 out of 27) have occurred or will have happened since the October 1984 delegation of authority to close offices.

FACT: SSA has recently embarked on a new "Service Delivery Review" program which requires within two and one-half years, an assessment of whether to retain, downgrade, consolidate or close each of its 1,300 local field offices.

	Number Opened	Number Closed	Net Closures	Number Upgraded	Number Downgraded	Net Downgraded
1981	0	3	3	1	4	3
1982	0	3	3	2	9	7
1983	2	1	-1	9	17	8
1984	0	6	6	3	9	6
1985	1	14	13	(Incomplete Data)		
81-85 Totals	3	27	24	15	39	24

ATTACHED: A State by State list of all 68 offices in 31 states which have been adversely affected by closure/downgrading.

SOCIAL SECURITY OFFICE CLOSINGS/DOWNGRADINGS 1981-1985

There have been sixty-eight office closings or downgradings in 31 states since 1981.* Fourteen of the twenty-six closures have occurred or are scheduled to occur ih 1985.

	CLOSED	DOWNGRADED
National Total	27	41
Alabama	Five Points West ('82)	Bessemer ('82) Demopolis ('82) Russellville ('84) Troy ('85)
Alaska		Juneau ('81) Juneau ('83)
Arizona		Window Rock ('84)
Arkansas		Camden ('83) Conway ('83) West Memphis ('84)
California	Oakland-West ('85)	
Colorado	Denver-S.W. ('85)	Fort Morgan ('82) Lamar ('84) Sterling ('83)
Connecticut	Bridgeport ('81)	
Florida	Miami-Central ('84) South-Pasadena ('84)	Palatka ('83)
Georgia	Savannah ('82)	Bainbridge ('81)
Illinois	Arlington Hgts. ('85) Des Plaines ('85) Glenview ('85) La Grange ('85)	Evanston ('84)
Indiana	East Chicago ('85)	
Kansas	Liberal ('85)	Colby ('84) Colby ('85)
Kentucky	Louisville-W. ('85)	Elizabethtown ('83) Harlan ('82)

SOCIAL SECURITY OFFICE CLOSINGS/DOWNGRADINGS 1981-1985 CONTINUED

	CLOSED	DOWNGRADING
Louisiana	Bossier City ('82)	Leesville ('82) Tallulah ('83)
Maryland	Baltimore-N.W. ('84)	
Minnesota	Minneapolis-B'wy ('85)	Crookston ('83)
Montana		Miles City ('83)
Nebraska	Hastings ('85)	Columbus ('82)
New Mexico		Crown Point ('81) Shiprock ('84)
New York	Tompkins Park ('81)	Riverdale ('83)
North Carolina	Charlotte-W. ('81)	High Point ('84)
Ohio	Bridgeport ('84)	
Oklahoma		Altus ('82) Duncan ('83) Ponca City ('82)
Oregon	Portland-No. ('85)	Klamath Falls ('83)
Pennsylvania	Pittsburgh-Hill ('85) Philadelphia-N. ('84)	Kittanning ('83) Leighton ('83) Pittsburgh-Hill ('83)
South Carolina		Lancaster ('83)
South Dakota	Mitchell ('84)	
Tennessee	Nashville-Hadley Pk ('85)	
Texas		Vernon ('82)
Washington		Chehalis ('84) Walla Walla ('83)
West Virginia	Oak Hill('83)	Oak Hill ('81)

*Some offices have been downgraded twice, others appear on both lists because they were downgraded and then closed.

FOURTEEN SSA OFFICES TO CLOSE IN 1985-
759 SSA OFFICES REMAIN VULNERABLE

1985 OFFICE CLOSINGS

Closed by July 1st:

Denver (Southwest), Colorado (effective 7/1/85)
East Chicago, Indiana (effective 6/30/85)
Hastings, Nebraska
Liberal, Kansas
Minneapolis (Broadway), Minnesota (effective 6/30/85)
Oakland (West), California

Scheduled to be closed by December 31, 1985:

Arlington Heights, Illinois
Des Plaines, Illinois
Glenview, Illinois
La Grange, Illinois
Louisville (West), Kentucky
Nashville-Hadley Park Tennessee
Pittsburgh (Hill), Pennsylvania
Portland (North), Oregon

- Thirteen of fourteen offices are on Roybal's February list of 772 vulnerable Social Security Offices. A list of the remaining 759 vulnerable Social Security offices is attached.

- Closing fourteen Social Security offices in 1985 represents a five-fold increase over the average of less than 3 closings per year between 1981-1984.

- In June SSA began a formal Service Delivery Review Program which requires a review of all 1,340 field facilities by December 31, 1987. A list of the remaining 759 most vulnerable Social Security is attached.

Washington Post 7/6/85

Social Security Office Closings Are Reported

United Press International

The Reagan administration plans to close nine Social Security offices in six states before the end of the year, the chairman of the House Select Committee on Aging said yesterday.

Rep. Edward R. Roybal (D-Calif.) said the administration closed offices in East Chicago, Ind., Minneapolis and Denver during Congress' July Fourth recess.

Offices targeted for elimination later this year, he said, are in Louisville; La Grange, Ill.; Arlington Heights, Ill.; Des Plaines, Ill.; Glenview, Ill., and Pittsburgh.

"It is the Office of Management and Budget's way of cutting benefits through the back door," Roybal said.

"It's now up to the administration to prove that they intend to keep these offices open and . . . maintain adequate services," he added.

7/9/85

(memolist)

This is a list of the 759 local Social Security offices which could be closed or downgraded under SSA's new Service Delivery Methodology. The new plan requires a review of all 1,340 field offices by December 31, 1987. Prior to the formalization of this review process in May, SSA had already scheduled fourteen office closings for 1985. Regional Commissioners had been given final authority for closings and downgradings (but not openings or upgradings) in October, 1984.

State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
ALABAMA		
	10	5
	Albertville Alexander City Anniston Birmingham-East Cullman Fairhope Jackson Russellville Scottsboro Troy	Andalusia Birmingham-Ensley Jasper Mobile-West Opelika
ALASKA		
	1	
	Fairbanks	
ARIZONA		
	4	4
	Casa Grande Douglas Flagstaff Nogales	Prescott Scottsdale Tucson Yuma
ARKANSAS		
	5	3
	Blytheville Harrison Helena Searcy West Memphis	Batesville North Little Rock Russelville

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
CALIFORNIA		
	16	36
	Banning	Alhambra
	Berkeley-Southwest	Auburn
	Carmel	Beach Cities
	Corona	Burbank
	Costa Mesa	Culver City
	El Sereno	Downey
	Fresno	El Centro
	La Crescenta	Fairfield
	Lakeport	Fresno-Downtown
	Livermore	Fresno-West
	Lodi	Gilroy
	Palo Alto	Glendora
	Sonora	Hanford
	Susanville	Hemet
	Watsonville	Huntington Beach
	Yreka	Indio
		La Puenta Valley
		Marina Venice
		Monrovia
		Napa
		Oroville
		Placerville
		Porterville
		Redlands
		Richmond
		Roseville
		San Francisco-Chinatown
		San Francisco-Hunters Point
		San Francisco-Outer Mission
		San Juan Capistrano
		San Leandro
		San Pablo
		San Pedro
		Ukiah
		Vallejo
		West Sacramento
COLORADO		
	8	3
	Alamosa	Ft. Collins
	Boulder	Greeley
	Canon City	Lakewood
	Durango	
	Glenwood Springs	
	Grand Junction	
	La Junta	
	Montrose	

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
CONNECTICUT		
	7	7
	Ansonia Bristol Danbury Middletown Norwich South Norwalk Torrington	East Hartford Meriden New Britian New London Stamford Waterbury Willimantic
DELAWARE		
		2
		Dover Georgetown
DISTRICT OF COLUMBIA		
	2	2
	Hawaii Ave. Pennsylvania Ave.	East Capitol Fort Lincoln
FLORIDA		
	10	13
	Hallandale Key West Lake City Marianna Naples Plant City Quincy Sebring Sanford Vero Beach	Allapattah Bradenton Dade City Deland Delray Beach Jacksonville-North Little River Miami Beach Panama City Pompano Beach Riverside St. Augustine Winter Haven

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
GEORGIA		
	14	11
	Atlanta-Northeast	Atlanta-Northwest
	Atlanta-Southwest	Atlanta-Southeast
	Augusta-Daniel Village	Brunswick
	Carrollton	Dublin
	Cedartown	Griffin
	Cordele	La Grange
	Covington	Thomasville
	Dalton	Valdosta
	Moultrie	Vidalia
	Milledgeville	Warner Robbins
	Statesboro	Waycross
	Swainsboro	
	Tifton	
	Toccoa	
HAWAII		
	3	1
	Hilo	Waipahu
	Kahului	
	Lihue, Kauai	
IDAHO		
	2	4
	Caldwell	Coeur d'Alene
	Idaho Falls	Lewiston
		Pocatella
		Twin Falls

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
ILLINOIS		
	6	19
	Cairo Effingham Freeport Litchfield West-Frankfort Woodstock	Belleville Bloomington Carbondale Champaign Chicago-Back of the yards Chicago-Bridgeview Chicago-Lawndale Chicago West Town Downers Grove Elgin Galesburg Harrisburg Kankakee Mt. Vernon Pekin Peru Quincy Sterling Villa Park
INDIANA		
	4	9
	Auburn Crawsfordsville Michigan City Valparaiso	Elkhart Indianapolis-East Indianapolis-West Kokomo Lafayette Madison Merrillville Richmond Vincennes
IOWA		
	11	6
	Ames Carroll Clinton Council Bluffs Creston Decorah Iowa City Marshalltown Oskaloosa Spencer Storm Lake	Burlington Cedar Rapids Dubuque Ft. Dodge Mason City Ottumwa

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
KANSAS		
	7	5
	Colby Dodge City Emporia Independence Lawrence Ottowa Winfield	Hutchison Kansas City Pittsburg Salina Shawnee Mission
KENTUCKY		
	12	8
	Ashland Danville Henderson Jackson Louisville-East Madisonville Maysville Mayfield Middlesboro Prestonburg Richmond Somerset	Campbellsville Elizabethtown Frankfort Hazard Hopkinsville Owensboro Paducah Pikeville
LOUISIANA		
	8	3
	Bastrop Bogalusa Covington Minden Morgan City Natchitoches Plaquemine Ruston	Baton Rouge-Govt. St. Baton Rouge-North New Orleans-East
MAINE		
	4	3
	Biddeford Rockland Rumford Waterville	Augusta Lewiston/Auburn Presque Isle

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
MARYLAND		
	11	7
	Annapolis Baltimore-East Baltimore-North Baltimore-Northeast Baltimore-Belaire Cambridge Catonsville Elkton Frederick Hagerstown Westminster	Baltimore-Eastpoint Baltimore-West Cumberland Glen Burnie Landover Randallstown Rockville
MASSASCHUSETTS		
	6	9
	Brookline Falmouth Gardner Greenfield North Adams Taunton	Attleboro Fitchburg Hanover Haverhill Hyannis Norwood Pittsfield Roslindale Waltham
MICHIGAN		
	7	10
	Adrian Alpena Holland Ironwood Monroe Owosso Petoskey	Detroit-East Jefferson Detroit-Grand River Detroit-Livernois St. Detroit-Southwest Farmington Flint Hamtramck Livonia Marquette Mt. Clemons

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
MINNESOTA		
	7	6
	Alexandria Austin Fairmont Fergus Fall Hibbing Rochester Winona	Bemidji Brooklyn Center Duluth Mankato Marshall Minneapolis-Southwest
MISSISSIPPI		
	13	9
	Biloxi Brookhaven Cleveland Columbia Corinth Grenada Kosciusko McComb Natchez Newton Pascagoula Philadelphia Starkville	Clarksdale Columbus Greenville Greenwood Hattiesburg Holly Springs Laurel Meridian Vicksburg
MISSOURI		
	11	17
	Chillicothe Columbia Kirksville Kirkwood Lebanon Maryville Nevada Rolla St. Charles Union Warrensburg	Cape Girardeau Flat River Gladstone Hannibal Jefferson City Joplin Kansas City Kennett Moberly Sedalia Sikeston St. Joseph St. Louis-North County St. Louis-Northeast St. Louis-Northwest St. Louis-South County West Plains

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
MONTANA		
	6	2
	Bozeman Butte Hare Helena Kalispell Lamar	Great Falls Missoula
NEBRASKA		
	4	2
	Beatrice Fremont Grand Island Scottsbluff	Norfolk North Platte
NEVADA		
		1
		North Las Vegas
NEW HAMPSHIRE		
	3	3
	Keene Littleton Nashua	Concord Manchester Portsmouth
NEW JERSEY		
	3	7
	Newton Raritan Wildwood (Atlantic City)	Brick Township (Asbury Park) Glassboro (Camden) Hoboken Ho-Ho-Kus Mount Holley (Camden) Plainfield Toms River

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
NEW MEXICO		
	4	3
	Clovis Gallup Hobbs Las Vegas	Farmington Roswell Santa Fe
NEW YORK		
	6	24
	Auburn Dunkirk Gloversville Herkimer Long Beach Mt. Vernon	Astoria Bronx-Hunt's Point Brooklyn-Bedford Stuyvestant Brooklyn-Brushwick Brooklyn-Glendale Brooklyn-King's Plaza Corning Elmira Hudson Jamestown Long Island City NYC-Chinatown NYC-Lenox Hill NYC-Murray Hill NYC-North Harlem New Door-Staten Island Ogdensburg Oswego Peekskill Plattsburgh Ridgemont Riverhead Rome Watertown

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
NORTH CAROLINA		
	19	14
	Albemarle	Durham
	Ahoskie	Gastonia
	Asheboro	Goldsboro
	Burlington	Greenville
	Concord	Henderson
	Elizabeth City	Hickory
	Franklin	Lumberton
	Hendersonville	New Bern
	High Point	Rocky Mount
	Kinston	Salisbury
	Mt. Airy	Sanford
	Morganton	Shelby
	Reidsville	Whiteville
	Roanoke Rapids	Willmington
	Rockingham	
	Smithfield	
	Statesville	
	Wilkesboro	
	Washington	
NORTH DAKOTA		
	5	3
	Devils Lake	Bismark
	Dickinson	Grand Forks
	Grafton	Minot
	Jamestown	
	Williston	
OHIO		
	18	19
	Ashtabula	Akron-West
	Athens	Batavia
	Bowling Green	Cincinnati-Peebles Corners
	Cambridge	Cleveland-Northwest
	Cleveland-Northwest	Cleveland-U. Circle
	Columbus-West	Defiance
	Dayton-West	Columbus-East
	East Liverpool	Columbus-North
	Fremont	Euclid
	Gallipolis	Findlay
	Ironton	Marion
	Lancaster	Middletown
	Marietta	Newark
	Medina	Painesville
	New Philadelphia	Portsmouth
	Ravenna	Sandusky
	Wooster	Steubenville
	Xenia	Toledo-West
		Zanesville

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NATIONAL TOTAL	377	382
OKLAHOMA		
	10	5
	Ada	Ardmore
	Bartlesville	Enid
	Chickasha	Lawton
	Clinton	McAlester
	Hugo	Shawnee
	Miami	
	Norman	
	Okmulgee	
	Poteau	
	Stillwater	
OREGON		
	11	2
	Albany	Beaverton
	Astoria	Medford
	Bend	
	Coos Bay	
	Klamath Falls	
	La Grande	
	Ontario	
	Pendleton	
	Portland-Lloyd Center	
	Portland-South	
	The Dalles	

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
PENNSYLVANIA		
	17	23
	Beaver Falls	Altoona
	Bloomsburg	Ambridge
	Carbondale	Bethlehem
	Carlisle	Butler
	East Stroudsburg	Chambersburg
	Lebanon	Charleroi
	Lewistown	Du Bois
	Meadville	Glenside
	Monroeville	Hazelton
	Pittsburgh-Brentwood	Indiana
	Pittsburgh-East Liberty	McKeesport
	Pittsburgh-Mt. Lebanon	New Castle
	Pittston	New Kensington
	Shamokin	Oil City
	State College	Philadelphia-Kensington
	Somerset	Philadelphia-Nicetown
	Towanda	Philadelphia-Woodland
		Pittsburgh-Northside
		Pottstown
		Sharon
		Sunbury
		Washington
		Williamsport
PUERTO RICO		
	4	7
	Fajardo	Aguadilla
	Guayama	Cayey
	San Sebastian	Hato Rey
	Yauco	Hato Tejas
		Humacao
		Manati
		San Juan
RHODE ISLAND		
	2	
	Newport	
	Woonsocket	

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
SOUTH CAROLINA		
	6	9
	Beaufort	Aiken
	Bennettsville	Anderson
	Camden	Charleston-Downtown
	Dillon	Conway
	Laurens	Georgetown
	Walterboro	North Charlestown
		Orangeburg
		Rock Hill
		Sumter
SOUTH DAKOTA		
	4	2
	Aberdeen	Huron
	Pierre	Rapid City
	Watertown	
	Yankton	
TENNESSEE		
	11	11
	Athens	Clarksville
	Cleveland	Columbia
	Greenville	Gallatin
	La Follette	Johnson City
	Lawrenceburg	Kingsport
	McMinnville	Maryville
	Murfreesboro	Memphis-East
	Nashville-East	Memphis-North
	Paris	Memphis-South
	Selmer	Oak Ridge
	Union City	Tullahoma

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
TEXAS		
	16	13
	Alice Brenham Brownwood Cleburn Corsicana Denton Georgetown Kerrville Marshall McKinney Nacogdoches Palestine Pampa Plainview San Marcos Waxahachie	Angelton Bryan Big Spring Dallas-West Eagle Pass Fair Park Fort Worth-South Greenville Paris Pleasant Grove San Angelo Seguin Sherman
UTAH		
	2	1
	Cedar City Murray	Provo
VERMONT		
		2
		Montpelier Rutland
VIRGIN ISLANDS		
	2	
	St. Croix St. Thomas	

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
VIRGINIA		
	11	14
	Arlington Culpepper Farmville Fredricksburg Hampton Harrisonburg Manassas Martinsville Richmond-Church Hill South Boston (Danville) Staunton	Alexandria Charlottesville Covington Danville Newport News Norton Portsmouth Richmond-Northside Richmond-Southside Suffolk Tysons Corner Virginia Beach Winchester Wythesville
WASHINGTON		
	7	6
	Longview Lynnwood Mount Vernon Port Angeles Seattle-Burien Seattle-West Walla Walla	Bellingham Bremerton Puyallup PullmanRenton Seattle-North Vancouver
WEST VIRGINIA		
	8	2
	Elkins Logan Martinsburg Montgomery Morgantown Petersburg St. Albans Williamson	Fairmont Welch
WISCONSIN		
	5	4
	Manitowoc Milwaukee-Mitchell Milwaukee-South Milwaukee-West Bend Sheboygan	Janesville Kenosha Milwaukee-East Waukesha

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State	Offices Most Likely to be Closed	Offices Which May be Downgraded or Closed
NATIONAL TOTAL	377	382
WYOMING		
	4	1
	Cheyenne Rock Springs Riverton Sheridan	Casper

Appendix 2—Background Information on Current Legislative Initiatives To Create an Independent Social Security Agency

Statement by Chairman Edward R. Roybal Upon the Introduction of H.R. 825, a Bill To Create an Independent Social Security Agency

Mr. Speaker, I congratulate the leaders of the Ways and Means Committee for bringing forward a good piece of legislation to create an independent, board-governed Social Security agency. I am happy to join them in this effort and I am proud to have worked with them and their capable staff in drafting this legislation.

I am disappointed that I could not take the floor today because I had to attend a meeting at the White House on the budget. However, I want my colleagues to know I strongly support this legislation.

I would also like to recongnize the good work of my colleagues on the Aging Committee who joined with me last summer in introducing H.R. 5904 of the 98th Congress. Our bill, along with Mr. Pickle's previous legislation, H.R. 6178, were the forebearers of this new effort.

The original cosponsors of H.R. 5904, Ms. Oakar, Mr. Synar, Mr. Vento, Mr. Frank, Mr. Wise, Mr. Dyson, and Mr. Seiberling, were very supportive in our early efforts to give Social Security employees better tools to do the job they want to do. I do not believe we would have come so far without their active support.

In addition, Senator David Pryor, primary sponsor of our legislation in the other body, has already re-introduced our legislation as S. 122. His support and that of other Senate leaders is a good indication that there is strong support on the other side of the Capitol.

Last summer, Mr. Pickle held a hearing on whether the SSA should be made into an independent agency. If you read through the testimony I think you will be as impressed as I was by the level of agreement among Social Security experts and administrators for more independence for Social Security. Their unanimity should motivate the 99th Congress to move quickly to enact legislation to create an independent agency governed by a bipartisan board.

Robert Flemminger, then president of the National Council of Social Security Managers Association, represented almost 4,000 managers in over 1,300 Social Security field offices. Mr. Flemminger chose the Ways and Means Subcommittee hearing on the Independent Agency to present his association's first ever testimony to a Congressional Committee. In his own words he said he came:

> because most of our current problems are a result of unstable cabinet level leadership and our being only one part of HHS. As a result, the National Council of Social Security Managers Association fully endorses an independent SSA along the lines proposed by H.R. 5904. A board of directors, a longer term-appointed Commissioner, and independent status could again make us a great agency.

Kenneth Blaylock, national president of the American Federation of Government Employees which represents 72,000 Social Security employees, agreed with the SSA Managers Association that:

> The real difficulties in Social Security are management problems—poor administration of the disability programs, for example, or bad office conditions or outdated computers. Our own experience with management has taught us that here is an organization not in control of its programs, its own resources, or budget, or its own policy.

Robert Myers, the Reagan Administration's former Deputy Commissioner of Social Security and the Executive Director of the 1983 National Commission on Social Security Reform, testified that the layered organizational structure which includes HHS and OMB has the result that:

> necessary and desirable action is often delayed so long as to be useless. An outstanding example of this is the infamous notch situation in the OASDI program which could have been directly alleviated by a feasible legislative change in 1981—or even earlier, but never surfaced from the layers of review.

Mr. Myers reasserted his long-standing recommendation that SSA should be an independent agency governed by a full-time board appointed on a bipartisan basis.

Wilbur Cohen, Secretary of HEW during the Johnson Administration, testified on behalf of the Save Our Security coaltion and stressed the necessity of creating a board-governed organizational structure. His testimony was endorsed by Arthur Flemming, Secretary of HEW during the Eisenhower Administration; Robert Ball, Commissioner of SSA in the Kennedy, Johnson, and Nixon Administrations; Nelson Cruikshank, Special Assistant to the President on Aging in the Carter Administration; and William Bechill, Commissioner on Aging in the Johnson Administration. They favor an independent board-governed agency, in part, because it would help to restore public and Congressional confidence in the program.

Furthermore, the Save Our Security coalition stated:

> if there had been a board administering the disability provision of the Social Security program in 1981, we would not have had the unfortunate recent experience with the administration of the disability program. With a bipartisan board, there very likely would have been a whistle blower on the board who would have revealed or moderated the precipitate and uncompassionate implementation of the 1980 amendments.

The legislation introduced by myself, the gentleman from Illinois and the two gentlemen from Texas will insulate the administration of Social Security from the arbitrary pressures too often seen over the last decade.

The board-governed organizational structure proposed by this legislation is endorsed by the SSA Managers' Association, SSA Employees' Union, former Secretaries of HEW and Commissioners of SSA and the beneficiaries represented by the Save Our Security coalition. As an original cosponsor, I ask my colleagues to join with me in supporting speedy movement of this bill through the legislative process. And I again congratulate Mr. Pickle and wish him great speed.

NEWS

Select Committee on Aging

U.S. House of Representatives

EDWARD R. ROYBAL, Chairman
300 New Jersey Ave., S.E., Room 712
Washington, D.C. 20515
202/226-3375

INDEPENDENT SOCIAL SECURITY ADMINISTRATION

As Proposed by Congressmen Rostenkowski, Pickle, Archer, and Roybal

1) General Structure and Responsibility

Remove the Old Age, Survivors and Disability Insurance programs plus Supplemental Security Income from HHS and place them under a free-standing Social Security Administration. (Leave Medicare/Medicaid, Refugee Resettlement, AFDC, Energy Assistance and Child Support Enforcement in HHS).

The agency is governed by a three-member Board of Directors with staggered six-year terms. The Board appoints a single Commissioner to a five-year term. A public Ombudsman represents citizen concerns within the agency. An Inspector General assesses agency performance.

The management of the agency is strengthened by giving it greater flexibility and independence from GSA and OPM.

2) The Board of Directors

Three members nominated by the President and confirmed by the Senate for six-year terms staggered so that one term expires at the end of each even numbered year. The Chairman is appointed by the President. Removal during term requires a finding of neglect of duty or malfeasance by the President which must be transmitted in writing to Congress in five days.

Responsibilities

A) To govern the Administration through regulation.

B) To appoint a Commissioner to be the Chief Operating Officer.

C) To act as Trustees for the Social Security Trust Funds. Other Trustees are the Secretaries of the Treasury and HHS and two public members required by the 1983 Amendments.

D) To make annual budgetary recommendations and defend such recommendations before the Congress.

E) To provide analysis, information and recommendations to the Congress and the President on proposed changes in Social Security programs.

F) To conduct policy analysis and research.

3) The Commissioner

The Commissioner is appointed by the Board to a five-year term. Removal during the term requires a majority vote of the Board.

Responsibilities

A) To be the chief operating officer responsible for administering Social Security programs in a manner consistent with law and regulations.

B) To establish and maintain an efficient and effective operational structure.

C) To devise and implement long-run plans to improve the effectiveness and administration of these programs.

D) To make the annual budgetary recommendations for ongoing administrative expenses and to defend such recommendations before the Board and the Congress.

E) To advise the Board and the Congress of the administrative impact of legislative changes in Social Security programs.

F) To act as Secretary to the Board of Trustees.

G) To make an annual report to the Board for the Congress on the administrative endeavors and accomplishments of the Agency.

4) The Deputy Commissioner

The Deputy Commissioner performs duties as delegated by the Commissioner and acts as Commissioner when the Commissioner is absent or incapacitated. The Deputy Commissioner's 5 year term coincides with the Commissioner's term.

5) The Inspector General

An Inspector General, nominated by the President and confirmed by the Senate, is established pursuant to the Inspector General's Act of 1978 as amended.

6) Other

The legislation includes a statement of a beneficiary's and contributor's "bill of rights."

The legislation incorporates provisions which strengthen the independent management of the Administration. These recommendations: 1) base SSA's personnel budget on a workforce plan rather than a personnel ceiling; 2) allow SSA greater authority for computer acquisition and property management; and 3) allow SSA greater flexibility in recruiting new employees and compensating senior executives.

COSPONSORS OF H.R. 825

As of September 6, 1985

DEMOCRATS 42

Andrews
Anthony*
Bedell
Bevill
Byron
Chappell
Coleman
Coyne*
Daschle
Dixon
Donnelly*
Downey*
Dyson
Fazio
Fowler*
Ford, Wm
Hughes
Jacobs*
Jones, Walter
Kennelly*
LaFalce
Levin
Lloyd
Markey
Matsui*
Mrazek
Neal
Nelson
Novak
Oakar
Pickle*
Rangel*
Rodino
Rostenkowski*
Roybal
Seiberling
Sikorski
Spratt
Stark*
Traficant
Udall
Wise

REPUBLICANS 24

Archer*
Boehlert
Clinger
Coats
Conte
Craig
Crane*
Drier
Frenzel*
Gekas
Horton
Lagomarsino
Lujan
McCandless
McGrath*
McMillan
Petri
Ritter
Shaw
Strangeland
Tauke
Thomas*
Whittaker
Wortley

Total Cosponsors: 66
*Cosponsors on Ways and Means: 17 of 36

APPENDIX 3—BACKGROUND INFORMATION ON SOCIAL SECURITY AND THE UNIFIED BUDGET, INCLUDING "SOCIAL SECURITY AND THE UNITED BUDGET," AN ARTICLE BY ALICIA H. MUNNELL, FEDERAL RESERVE BANK OF BOSTON, NEW ENGLAND ECONOMIC REVIEW, JULY-AUGUST 1985: 5-18

SOCIAL SECURITY AND THE UNIFIED BUDGET

Background on budgetary treatment of Social Security

Before 1969, the budget sent to Congress each year by the President was not one document but several: the "Administrative Budget"; the "National Income Accounts"; and a "Consolidated Cash Budget". Historically, the document which received the most widespread attention as the "Federal budget" was the Administrative Budget. This document did not include the operations of Federal Trust Funds, such as the Highway Trust Fund and the Social Security Trust Funds. The activities of these funds were included in the latter two budget document presentations.

In order to improve the presentation of the Federal government's financial activities, President Johnson established a Commission on Budget Concepts in 1967 and, acting on the recommendations of the panel, submitted a "unified" budget to Congress in 1969. This new presentation included Trust Fund operations with other Federal programs, and has been used every year since 1969.

Social Security in the unified budget

While the unified budget had the attraction of making a consolidated presentation of the government's finances, critics have underscored that this strength is also a weakness which can be misleading. Under the unified budget, Social Security income and disbursements are added and subtracted against bottom-line totals of spending and revenues as though they actually offset other programs. By law, however, Social Security revenues may be used for only three specified purposes: (1) to pay benefits; (2) to pay administrative expenses for the programs; and (3) when a surplus exists, to be invested in government debt obligations.

While Social Security funds cannot be used in other programs, the unified budget makes it appear that they can. Accordingly, it gives a false impression of the fiscal status of the Federal government.

This situation will become aggravated in the near future. In FY 1985, Social Security will run a surplus of about $6.2 billion. Thus, including it in the unified budget will reduce the deficit by roughly that amount.

But later in this decade, and earlier in the 1990s, the system will start to run extremely large surpluses. According to long-range estimates of the Social Security Administration, the system will run a surplus of $67.4 billion in 1992 (at which time reserves in the Trust Funds will total over $185 billion). The unified budget thus permits the Social Security system in 1992 to hide a deficit of $67.4 billion in general treasury spending. Under current law, though, Social Security will be removed from the unified budget in 1993, when Social Security actuaries estimate the one-year surplus to total $75.8 billion. With such a surplus no longer available to hide general revenue programs, the Federal budget could have an "instant" deficit of over $75 billion in that year.

Recent Developments

In January, 1983, the Greenspan Commission appointed by President Reagan and

congressional leaders recommended that Social Security be removed immediately from the unified budget. The House adopted this recommendation, while the Senate did not; in conference, a compromise provision was retained which removed Social Security from the budget beginning with Fiscal Year 1993, on October 1, 1992. The Office of Management and Budget has consistently opposed taking Social Security out of the unified budget.

Following enactment of the 1983 Social Security Amendments, legislation was introduced in the 98th Congress to accelerate the removal of Social Security from the unified budget.

In the 99th Congress, twelve bills and one joint resolution have been introduced to remove Social Security from the unified; numerous other bills include provisions to remove Social Security from the unified budget. Following are those introduced by members of the Aging Committee:

H.R. 161	Oakar	Would take Social Security out the unified budget in Fiscal Year 1987 (FY 1986 for Congressional Budget resolutions) and would add two individuals to the Social Security Board of Trustees.
H.R. 2164	Rinaldo	(With Mr. Hammerschmidt) Would remove Social Security from the unified budget in FY 1986.
H.R. 2471	Roybal	Includes a provision to remove Social Security from the unified budget in FY 1989.
H.R. 2599	Bonker	Would remove all Federal Trust Funds from the unified budget in 1986.

In addition to congressional interest in altering the budgetary treatment of Social Security, President Reagan in a press conference on August 5 said:

> "Social Security as part of the deficit is nothing but a bookkeeping gimmick. Social Security runs a surplus. ...To continue to say that (we) could somehow reduce the deficit by reducing Social Security benefits is a snare and a delusion. And that's why I believe that we shouldn't even wait until 1992 when it is slated to be taken out of the budget and made a separate program."

September 9 Hearing

The hearing on September 9 will focus on two related issues: removing Social Security Trust Fund operations from the unified budget and making Social Security an independent agency.

The latter proposal has been embodied in legislation (H.R. 825) now pending before the Committee on Ways and Means. The bill was introduced by Congressmen Rostenkowski, Pickle, Roybal and Archer and currently has 66 cosponsors, including 17 of 36 Ways and Means Committee members.

FEDERAL RESERVE BANK OF BOSTON, NEW ENGLAND ECONOMIC REVIEW, JULY-AUGUST 1985: 5–18

Social Security and the Budget

Alicia H. Munnell

Senior Vice President and Director of Research, Federal Reserve Bank of Boston. *The author would like to thank Robert M. Ball, Steven F. McKay, Robert J. Myers, colleagues at the Boston Fed, and particularly, David Koitz of the Congressional Research Service, for useful comments. Lynn E. Blais provided able research assistance.*

Recent comments about the impact of potential social security cuts on the federal budget deficit reveal considerable confusion over the role played by the trust funds in federal finance. This confusion may reflect not only the somewhat complicated interaction between social security and the rest of the federal government, but also the changes over time in the budgetary status of the social security trust funds. Until fiscal 1969, the financial activity of social security and other trust funds was reported separately from the administrative budget; after fiscal 1969, trust fund activity was integrated with other federal functions and the total reported as the unified budget. Beginning in fiscal 1993, the social security trust funds are scheduled once again to be removed from the unified budget accounting and reported separately.

This article will explore the issue of the appropriate budgetary treatment of the social security trust funds and the relevant role for the social security program in the current deficit debates. To provide some background, section one describes the interaction between social security and the rest of the federal government and summarizes the history of the changing accounting treatment of the social security trust funds. The second section measures the contribution of social security trust fund activity to the net financial status of the federal government. The third section reviews the traditional arguments for and against reporting social security separately from other federal transactions and explores the implications for this debate of the projected accumulation of substantial reserves in the social security trust funds.

Two major conclusions emerge from this analysis. First, the traditional way of measuring the impact of the social security trust funds on the unified budget deficit has significantly understated the amount by which these programs have reduced the Treasury's required borrowing from the private sector. Second, the projected unprecedented buildup of trust fund reserves adds a new and compelling argument to the arsenal of reasons for reporting the activities of the social security trust funds

separately from the rest of the budget as is scheduled to occur after 1992 under current law. Moreover, the date at which this separation is slated to occur should be accelerated so that these assets, which are designed to pay for future social security benefits as the baby boom generation retires, do not distort decisions about social security or the rest of the budget.

I. The Social Security Trust Funds

The first social security trust fund was created for old-age and survivors insurance (OASI) by the 1939 amendments to the Social Security Act.[1] Additional trust funds were subsequently established when disability insurance (DI) was added to the system in 1956 and when the medicare programs were enacted in 1965.[2] Because social security has been financed on approximately a pay-as-you-go basis, the trust funds have been used to provide a buffer against brief unanticipated economic fluctuations, rather than to build up large earnings reserves to pay a substantial portion of future benefits. The dedicated payroll taxes, which finance social security's retirement, disability and hospital insurance (HI) programs, are transferred from the Treasury's general fund, where they are received, to the respective social security trust funds, where they are used to pay benefits and cover administrative expenses.[3] To the extent that social security income exceeds outgo, trust fund surpluses are invested in debt obligations of the federal government, and the interest earned on accumulated assets provides an additional source of income to the trust funds.

From the inception of the social security program until 1969, the most commonly used concept of federal government finances, the administrative budget, did not include the operations of the federal trust funds such as OASI, DI, medicare, highway, unemployment and others. Historically, these funds were shown separately because they had their own dedicated revenues. A consolidated cash statement, which included trust fund transactions, was published but received little attention. A third measure of government finances, the federal sector of the national income accounts published by the Department of Commerce, also included trust fund activity but was not the focus of annual budget deliberations.[4]

The turning point came in 1967 when for the first time the President emphasized the spending and deficit figures from the consolidated cash budget and the national income accounts as well as the traditional administrative budget. The Administration particularly highlighted the national income accounts, arguing that economists preferred this measure to gauge the impact of government spending on the economy. Republicans charged, however, that the President's enthusiasm for the national income accounts figures sprang less from their relevance for economic analysis than from the fact that they showed the lowest deficit of the three budget concepts (table 1).[5]

Table 1
Receipts, Outlays, and Deficits under Alternative Budget Concepts, Fiscal Year 1967
Billions of Dollars

Budget Concept	Receipts	Outlays	Deficit
National Income Accounts	167.1	169.2	2.1
Consolidated Cash Budget	168.1	172.4	4.3
Administrative Budget	126.9	135.0	8.1

Source: "Shaping a Simpler Budget," reprinted from *Business Week*, August 5, 1967, in James W. Davis, Jr., ed., *Politics, Programs, and Budgets* (Prentice-Hall, 1969), pp. 18–21.

With newspapers and wire services having three sets of budget totals to pick from, all published in the budget document and all discussed and explained during extensive news conferences, the result was a rash of conflicting headlines. *The New York Times* and *The Washington Post* featured the national income accounts figures, following the Administration's lead. United Press International led its story with the consolidated cash budget. The Associated Press stressed the administrative budget.

In an attempt to avoid such confusion in the future, President Johnson created the President's Commission on Budget Concepts in March 1967. The Commission issued its report in the fall of that year recommending that a unified summary statement be used to replace the three competing and confusing budget concepts.[6] This approach meant that the financial operations of the various federal trust funds would be shown together with those of other government programs in a single budget. Since the recommendations were unanimous and no legislation was required to implement the change, the first so-called unified budget was presented for fiscal year 1969. The effect in that year of including the social security trust

funds was to transform a $1 billion deficit into a $3 billion surplus.

The Congress subsequently gave its implicit approval to the unified budget in the Congressional Budget and Impoundment Control Act of 1974. This legislation established procedures for the Congress to develop federal budgets independently of the President. By including the activities of the federally administered trust funds in the scope of the programs to be covered by the new procedures, the Congress implicitly endorsed a comprehensive budget concept.[7]

Debate over the budget concepts subsided until February 1981 when the Administration proposed several cuts in social security benefits as part of its first budget proposal. Most of these proposals were subsequently included as part of the Omnibus Budget Reconciliation Act of 1981, which was signed into law on August 13, 1981. The social security minimum benefit, student benefit, lump-sum death benefit, as well as a number of other existing benefit provisions, were eliminated or severely restricted by the passage of that legislation.

In May 1981, the Administration announced a significantly more dramatic package of benefit reductions for the OASDI programs. The proposals were wide-ranging, but the ones that would have had the largest and most immediate effect included: reducing the early retirement benefit from 80 percent to 55 percent of the full benefit beginning in 1982; adjusting the benefit formula for only one-half the wage growth during the period 1982-87 so that benefits would decline as a percent of preretirement earnings; and making disability determinations solely on the basis of medical considerations, rather than on a combination of medical and vocational factors. The fact that these proposals were projected to reduce long-run costs by 88 percent more than the Social Security Trustees' estimate of the long-run deficit fueled suspicion that OASDI financing problems were being used as an excuse to cut back on social security as a means of restoring balance to the unified budget.[8]

In response to the perceived dangers to the social security program, numerous attempts were made in the Congress either to make social security and medicare more visible within the unified budget or to remove them altogether from the budgetary process. Senators Eagleton and Stennis introduced an amendment to the Economic Recovery Tax Act of 1981 that would have required the financial projections and assumptions for OASDI and medicare to be displayed more prominently in the unified budget. The amendment was passed by the Senate, but dropped in conference. Senator Eagleton reintroduced the proposal in connection with legislation that culminated in the Social Security Amendments of 1981.[9] Again the amendment was passed by the Senate, but dropped in conference.

Members of the Congress continued to worry that the large deficits in the unified budget would spark further efforts to cut back on social security. The tension reached a peak in May 1982 when the Senate Budget Committee included $40 billion of "unspecified" changes in social security as part of a plan to reduce the budget deficit over the next three years. The Committee did not specify whether the reduction would come from benefit cuts or tax increases, but did say that it was the expected outcome of recommendations due later in the year from the National Commission on Social Security Reform, the group that had been appointed by the President and the Congress to resolve social security's immediate and long-term financing problems. This effort to force further social security changes in order to reduce the budget deficit was met with such strong opposition that the proposal was promptly dropped and the matter never came to a vote in the Senate.

Social security and hospital insurance are to be removed completely from the budget beginning in fiscal 1993.

Finally, the National Commission on Social Security Reform considered the issue of the appropriate relationship between social security and the rest of the government's financial activities. The Commission concluded in its 1983 report that the trust funds should be removed from the unified budget and this proposal was included in the Social Security Amendments of 1983.[10]

As the law now stands, social security and medicare are to be displayed more prominently in the budget until fiscal 1992—that is, shown as a separate numbered account rather than as subcategories of income security and health—and then social security and hospital insurance are to be removed completely from the budget beginning in fiscal 1993. (Supplementary medical insurance, which is financed by pre-

miums and general revenues rather than by earmarked payroll taxes, would remain part of the budget but would be shown as a separate major category.)

II. Effect of Social Security Trust Funds on the Budget

Regardless of how the social security trust funds are reported, their receipts and outlays have a significant impact on the overall financial status of the federal government and on the demands of the Treasury in the private credit markets. Measuring the impact would be a straightforward and noncontroversial exercise if trust fund revenues consisted only of payroll tax receipts and outlays consisted only of benefit payments and administrative expenses; then federal fiscal activities could be summarized by two separate and distinct accounts—one presenting the receipts and outlays of the social security trust funds and one showing the financial transactions for the rest of the government. In this setting, the excess of social security tax receipts over benefit payments and administrative expenses would be the appropriate measure of the trust funds' contribution to the rest of the federal budget.

Interpreting the impact of social security on the budget is complicated by numerous intragovernmental transactions.

In reality, however, interpreting the impact of social security on the federal budget is complicated by numerous intragovernmental transactions between the trust funds and the Treasury. A picture of the federal government's financial activities for fiscal 1986 is presented in table 2, which shows that in addition to $256 billion of earmarked payroll taxes and other contributions, the OASDHI trust funds will receive $18 billion in intragovernmental transfers from the Treasury. These transfers consist primarily of interest paid on the trust funds' holdings of outstanding government debt and contributions paid by the federal government in its role as an employer. During the same period, the trust funds will transfer $1 billion to the Treasury to cover interest on "normalized" or advance tax transfers from the Treasury.

Table 2
Social Security, Other Federal Programs, and the Unified Budget, Fiscal Year 1986[a]

Billions of Dollars

Item	Social Security	Other Federal Programs	Unified Budget
Receipts	274	539	
Direct	256	538	794
Intragovernmental	18	1	
Outlays	251	742	
Direct	250	724	974
Intragovernmental	1	18	—
Surplus or Deficit	+23	−203	−180

[a]Social security includes the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) trust funds.

Source: *1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds; 1985 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund; Historical Tables and Appendix of The Budget of the United States Government, Fiscal Year 1986* (GPO, 1985).

Since most of the intragovernmental transfers are netted out when the trust fund accounts and other federal accounts are consolidated into the unified budget, most analysts evaluate the contribution of the social security trust funds to federal finances as simply the difference between the direct receipts and outlays of the trust funds. For example, both the Social Security Administration and the Congressional Research Service calculate social security's fiscal 1986 contribution to the unified budget as the difference between receipts of $256 billion and outlays of $250 billion.[11] Thus, according to the conventional analysis, in 1986 the OASDHI trust funds are projected to reduce the unified budget deficit by $6 billion.

While direct receipts and outlays are the relevant numbers for constructing the unified budget, they do not provide the correct answer to the question whether the deficit in the rest of the federal budget would have been larger or smaller without the activity of the social security trust funds.

The clearest example of why the intragovernmental revenues and outlays should be included along with the direct activities of the trust funds is the case of interest payments from the Treasury to social

Table 3
Social Security Receipts and Outlays, Fiscal Year 1986

Billions of Dollars

Item	OASI	DI	HI	Total
Receipts	197.8	19.0	56.9	273.7
Direct	186.3	17.8	51.5	255.6
Payroll Taxes	182.5	17.5	51.5	251.5
Income from Taxation of Benefits	3.8	.3	n.a.	4.1
Intragovernmental	11.5	1.2	5.4	18.1
Interest	3.8	.5	2.9	7.2
Employer Contributions Made by the Federal Government	2.5	.2	1.3	4.0
Contributions for Military Wage Credits	3.5	.3	.1	3.9
Other[a]	1.7	.2	1.1	3.0
Outlays	182.4	20.5	48.1	251.0
Direct	181.7	20.4	47.8	249.9
Benefit Payments	177.9	19.5	47.1	244.5
Administrative Expenses	1.7	.8	.7	3.2
Payments to Railroad Retirement Account[b]	2.1[c]	.1	[c]	2.2
Intragovernmental[d]	.7	.1	.3	1.1
Surplus or Deficit	+15.4	−1.5	+8.8	+22.7

[a]Includes reimbursements for uninsured persons receiving OASDHI benefits and income tax credits allowed against payroll tax contributions. These credits will be eliminated after 1989.

[b]Although payments from OASDI to the Railroad Retirement Account are technically intragovernmental transfers, they are traditionally included as direct outlays of the federal government because they represent reimbursement for benefits paid by the Railroad Retirement Board to private citizens.

[c]The HI trust fund received a payment of $0.3 billion from the Railroad Retirement Account in 1986. This amount is netted out of OASI transfers to the Railroad Retirement Account.

[d]Intragovernmental outlays consist primarily of interest on normalized tax transfers.

n.a. = not applicable.

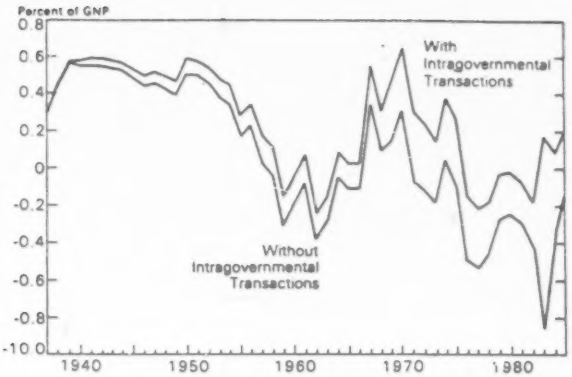
Source: *1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds; 1985 Annual Report of the Board of Trustees of the Federal Hospital Insurance Fund; Historical Tables and Appendix of The Budget of the United States Government, Fiscal Year 1986* (GPO, 1985).

security on the trust funds' holdings of government debt, which will amount to $7 billion in fiscal 1986 (table 3). The crux of the issue is whether this payment is simply a transfer among different sectors of the federal government that would not occur in the absence of social security or an outlay that would have to be paid to the public if it were not paid to the trust funds.

In resolving this issue, it is important to remember that the assets in the trust fund reflect past trust fund surpluses. When in earlier years trust fund revenues exceeded the amount needed to pay benefits and administrative expenses, this excess was loaned to the Treasury in order to cover expenses in the rest of the budget. If it is assumed that these deficits in the general fund would have occurred without the surplus in the trust funds, then the government would have had to look to the private sector rather than to the social security system to cover the shortfall.[12] Under this scenario, the Treasury would have to pay the interest to the private holders of the government debt rather than to the trust funds. In other words, interest payments from the general fund to the OASDHI trust funds are an inescapable financial commitment that directly reflects previous deficits in the non-social security portion of the federal budget; the fact that some of the debt is held by the social security system reduces the size of the unified budget deficit and the financial demands of the federal government on the private economy. Therefore, the social security trust funds' effect on federal finances should be calculated including interest received on trust fund assets and not just on the basis of the direct sources of revenue. The rationale for including the other components of

Chart 1

*Social Security Deficits and Surpluses, Fiscal Years 1937-1985**



* Social security includes the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) trust funds.

Source: *Historical Tables, Budget of the United States Government, Fiscal Year 1986* (GPO: 1985), Table 13.3.

the intergovernmental transactions in the same manner is summarized in appendix A. With these amounts included, the surplus or deficit in the trust funds becomes the relevant measure of the social security system's contribution to the unified budget deficit. Hence, in fiscal 1986 the social security system will reduce the unified budget deficit by $23 billion.

Chart 1 shows, from the beginning of the program in 1937 to the present, the net financial position of the combined OASDHI trust funds using the alternative definitions of revenues and outlays discussed above. The preferred measure, which includes intragovernmental transactions, indicates that the social security system has run annual surpluses in 39 of the last 49 years. Over the same period, the non-social security portion of the federal budget ran deficits in 43 years; in 31 of the 43 deficit years social security surpluses reduced the size of the shortfall and in two of the 43 years, 1949 and 1969, the excess of revenues over outlays in the social security trust funds more than offset the deficit in the rest of the budget to produce an overall surplus in the unified accounts. In total, the social security trust funds have reduced the deficit or increased the surplus in the general fund in all but 10 of the last 49 years (chart 2 and the underlying budget data presented in appendix B). Stated another way, over the entire 49-year span, total social security revenues of $2,238 billion have exceeded outlays of $2,180 billion, to produce $58 billion of OASDHI assets at the end of fiscal 1985.

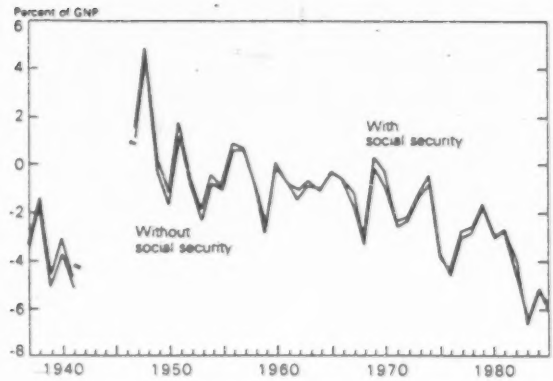
III. Arguments for and against Inclusion in a Unified Budget

Since social security trust fund transactions can alter the budget picture, it is important to consider whether the Congress and the public should be provided with a single unified budget or with a presentation that separates the transactions of these trust funds from the rest of government activity.[13] This question is more than just an issue of accounting. For while it is true that the impact on the economy of any given level of trust fund and other government activity will be the same regardless of how the numbers are reported, policymakers may well be affected by the form of the reporting and hence the reporting itself may ultimately influence the level of government activity.

Since the 1967 President's Commission on Budget Concepts is responsible for the current system of comprehensive accounting, it is an obvious place to look for the arguments in favor of including the social security trust funds in a unified budget. The main arguments for comprehensiveness, which permeate all the Commission documents, are the desire to eliminate the confusion associated with three competing budget concepts and to construct a budget that provides an aggregate measure of the impact of the federal sector on the economy. In addition, the staff paper on budget coverage cited four specific reasons why the trust funds should be included in the budget

Chart 2

*Federal Budget Deficits and Surpluses with and without Social Security, Fiscal Years 1937-1985**



* Social security includes the old-age and survivors insurance (OASI), disability insurance (DI) and hospital insurance (HI) trust funds. In order to preserve the detail, the large deficits experienced in 1942-46 have been excluded from the chart. These deficits reached 31 percent of GNP in 1943.

Source: *Historical Tables, Budget of the United States Government, Fiscal Year 1986* (GPO, 1985), Tables 1.1 and 13.3, and author's calculations

concept.[14] First, even though the social security programs do not require annual appropriations, the Congress is responsible for legislating tax rates and benefit formulas and changes in these provisions are made almost every year. Second, the government is ultimately responsible for assuring the financial solvency of these programs. Third, excluding the trust funds will distort priorities, since these programs receive more generous financing and less year-to-year scrutiny than programs included in the administrative budget. Finally, allowing emphasis to be placed on a budget that excludes the trust funds creates an incentive to invent new trust funds in order to reduce totals in the administrative budget.

The Commission's most convincing point is that policymakers need some aggregate measure of federal budget activity in order to assess the potential impact of total government spending and taxing on the economy. Excluding social security from this measure makes no sense, since the retirement, disability, and hospital insurance programs currently account for 25 percent of annual federal outlays and 34 percent of federal tax revenues.

Satisfying the need for a comprehensive budget figure for economic analysis does not mean, however, that the social security trust funds must be included in the annual budget considered by the Congress. The federal sector national income and product accounts are published quarterly and offer a very comprehensive picture of federal government transactions. Moreover, because this concept presents government fiscal transactions on an accrual rather than a cash basis, it offers the most useful measure of the impact of the federal sector on the economy. Economists and others will continue to use this concept in their efforts to assess alternative fiscal scenarios, regardless of whether or not the social security trust funds are included in the totals of the annual budget document.

The argument that social security must be in the budget document because the Congress is required to adjust the benefit and tax schedules on almost an annual basis is no longer relevant. The nature of the cash benefits programs has changed dramatically since the time of the Commission's report, when frequent adjustments were required on both the tax and benefit sides of the program in order to keep the provisions up to date with increases in prices and real wages. The 1972 Social Security Amendments introduced automatic cost-of-living adjustments for social security benefits and automatic increases in the maximum amount of earnings counted for benefit and contribution purposes to reflect rising average wages. These automatic adjustments combined with provisions in the 1977 Amendments produced a system under which benefits as a percentage of preretirement earnings will remain constant over time. On the financing side, as a result of the 1983 Amendments, revenues are projected to be sufficient to cover outlays well into the next century under the intermediate

economic and demographic assumptions of the Social Security Trustees. In short, in the absence of unforeseen events, the Congress should have no need to adjust either OASDI benefit or tax schedules for a long time.

The case for excluding social security from the unified budget rests on the nature of the retirement, disability, and hospital insurance programs. These programs are self-supporting, financed by dedicated payroll taxes and other contributions, and hence, should not be pitted against other programs that must compete for scarce general revenues. The annual budget process is designed to force policymakers to make choices among alternative expenditures, giving preference in the budget period to one type of program over another, and to decide how these expenditures are to be financed. Since social security outlays are based on past earnings histories and benefit promises stretch into the distant future, this program is not an appropriate part of the competitive budget process.

The social security program embodies a moral commitment to maintain the level of promised benefits.

Moreover, the social security program embodies a moral, if not a legal, commitment to maintain the level of promised benefits.[15] Firms design supplementary pension plan provisions and individuals make irreversible lifetime decisions on the basis of an expected level of social security protection. Any changes in these promised benefit levels should be made gradually over a long period of time in order to give businesses and individuals an opportunity to revise their plans. Proponents of separate reporting conclude that the temptation to change social security benefits abruptly to accommodate other federal tax or spending decisions is significantly reduced if social security is not part of the unified budget.

In addition to these conventional arguments, the projected emergence of large surpluses in the social security trust funds provides new reasons to report the financial status of the social security system separately from the rest of federal receipts and expenditures. According to the Office of the Actuary of the Social Security Administration, the surpluses in the three social security trust funds should total $483 billion over the next 10 years (table 4). In the longer run, the current OASDI financing scheme calls for the buildup of trust fund reserves to continue for the next 35 years, which will produce trust fund balances equal to nearly 27 percent of GNP by 2020.[16] These accumulated reserves are then scheduled to be drawn down to cover annual deficits after 2020. As shown in chart 3, the projected annual surpluses are considerably larger and more persistent than anything experienced in the past, and the way in which they are reported could have a significant impact on the level of government taxing and spending in coming years.

The first issue associated with the enormous trust fund buildup is one of fiscal discipline. If the social security trust funds remain part of the unified budget, so that the large surpluses projected for the next 35 years are reported in a manner that makes them appear available to finance general expenditures, they could reduce incentives to constrain costs

Table 4
Projected Social Security Surpluses, Fiscal Years 1985–1994[a]

Billions of Dollars

	OASDI				
Fiscal Year	OASI	DI	Total	HI	Total
1985	4.2	.5	4.7	3.9	8.7
1986	3.9	1.0	5.0	12.9	17.8
1987	9.3	−1.0	8.4	15.0	23.3
1988	29.8	.3	29.9	9.3	39.2
1989	37.9	1.0	38.9	8.0	46.9
1990	46.6	4.0	50.6	6.7	57.3
1991	54.4	5.8	60.3	4.3	64.6
1992	59.7	6.5	66.2	1.2	67.4
1993	69.8	7.5	77.3	−1.5	75.8
1994	78.8	8.3	87.1	−5.2	81.9
1985–94	394.2	33.9	428.4	54.6	483.0

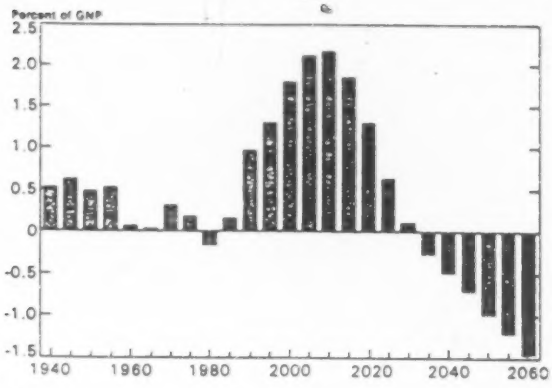
Note: Totals may not add due to rounding.

[a]These projections are based on the Intermediate (Alternative II-B) set of economic and demographic assumptions in the 1985 Trustees' Report. This alternative assumes that the average annual unemployment rate will decline steadily from 6.9 percent to 5.9 percent between 1985 and 1994 and that the real earnings differential will average 1.2 percent during this period.

Source: U.S. Social Security Administration, Office of the Actuary, Steven F. McKay, "Estimated Short-Range Operations of the OASI, DI and HI Trust Funds on the Basis of the 1985 Trustees' Report Assumptions," April 8, 1985, Memorandum, Table 8.

Chart 3

*Average Annual Deficits and Surpluses in the OASDI Trust Funds, Fiscal Years 1937-2060**



* Figures for 1940-80 represent the average annual surplus or deficit in the old-age and survivors insurance and disability insurance (OASDI) trust funds over the preceding five years. Figures for 1985-2060 are annual figures projected under alternative assumption II-B, 1985 OASDI Trustees' *Report*.

Source: U.S. Social Security Administration, Office of the Actuary, Harry C. Ballantyne, A.S.A., *Long-Range Estimates of Social Security Trust Fund Operations in Dollars*, Actuarial Note 125 (May 1985).

in the non-social security portion of the federal budget. That is, by taking the pressure off the Congress to carefully scrutinize the merits of alternative spending proposals, the social security surpluses could encourage the financing of marginal projects and produce a higher level of total government spending than would have otherwise occurred.

The second issue is related to the foregoing question of fiscal discipline but involves some longer-run considerations. These pertain to the OASDI financing arrangements over the next 75 years, which call for the accumulation of large reserves that are scheduled to be drawn down to finance annual social security deficits as the baby boom generation retires.[17] This is not the place to discuss the merits of the proposed funding plan, but simply to point out that for the social security surpluses to produce a net positive accumulation of resources at the federal level, they must not be offset by deficits in the non-social security portion of the budget.[18]

If the payroll taxes earmarked to pay future retirement and disability benefits are used to cover current outlays from the general fund, then the government debt held by the trust funds will be nothing more than paper claims. When the baby boom generation retires after the turn of the century, the trust funds will redeem their claims on the Treasury in order to pay promised benefits. The Treasury, however, will not have accumulated resources to meet its obligations, but rather will be forced to raise taxes at that time to pay off its debts. Thus, the full burden of supporting the beneficiaries will come from the future taxpayers—just as if the system had been financed on a pay-as-you-go basis all along. In this event, the only accomplishment of the proposed OASDI funding plan would be to shift the composition of federal revenues over time—with payroll tax receipts financing general government expenditures during the period of social security accumulation and general revenues financing social security benefits when trust fund assets are redeemed during the period of decumulation. Reporting social security trust fund activity separately from the rest of the federal budget, so that OASDI taxes do not appear available for general spending purposes, will give the best chance for the buildup of reserves in the trust funds.[19] This increase will produce real government saving that can then be used to finance future benefits.

IV. Conclusion

The financial activities of the social security trust funds have had a significant impact on the federal budget. Indeed, conventional analyses have consistently understated the extent to which trust fund surpluses have reduced the amount the Treasury has had to borrow in the private credit markets. A comprehensive appraisal of OASDHI receipts and outlays reveals that the social security system has, since its

inception in 1935, provided a net contribution of $58 billion to the general fund of the Treasury. Moreover, over the next ten years, the surpluses in the trust funds are projected to equal almost $500 billion.

The possible distorting effects of the large projected trust fund surpluses, the fact that the programs are self-financed with earmarked taxes and represent a moral commitment to continue to pay the benefits upon which people have made irreversible lifetime decisions, constitute compelling arguments for treating social security differently from other government programs. Social security should not be subject to annual Congressional review where changes are proposed merely to accommodate other non-social security budgetary decisions, nor should social security's projected buildup of reserves be appropriated for current non-social security expenditures.

Removing social security from the unified budget does not mean that the Congress relinquishes control over the program. Instead, it should merely reduce the likelihood that changes are proposed solely in response to short-run budgetary pressures, rather than in the interests of sustaining the nation's retirement income system. In short, reporting social security separately from other federal programs should lead to more rational decisionmaking, and, with the advent of large trust fund surpluses, the sooner the separation occurs the less chance for social security to distort other federal fiscal decisions or for other federal decisions to thwart social security's long-run financing plan.

Appendix A. Rationale for Treating Intragovernmental Transactions between the Social Security Trust Funds and the Treasury as Direct Receipts and Outlays of the Federal Government

In addition to interest on their holdings of government debt, the social security trust funds receive transfers from the Treasury to cover payroll tax contributions from the federal government in its role as an employer, noncontributory wage credits for military service, and a few miscellaneous items. On the expenditure side, the trust funds transfer to the Treasury payments to the Railroad Retirement Account and interest on normalized tax transfers. This appendix provides the rationale for treating these intragovernmental transactions as receipts and outlays of the federal government when assessing the contribution of the OASDHI trust funds to the unified budget.

I. Intragovernmental Receipts

a) Employer contributions made by the federal government. All temporary federal employees have been covered under OASDHI since 1951, and all military personnel have been similarly covered since 1957. In 1982, HI coverage was extended to all federal employees. As a result of the Social Security Amendments of 1983, all federal workers hired after 1983 will be covered by OASDI in addition to HI. These federal workers and their employer pay OASDHI taxes at the same rate as private sector participants in order to qualify for future social security benefits. Hence, the government must make periodic transfers to the OASDHI trust funds in an amount equal to the employer's share of the payroll taxes owed on its employees' covered wages.

As a result of the extension of social security coverage to newly hired federal employees, Congress is currently exploring options for redesigning the Civil Service Retirement System (CSRS) to incorporate the costs and benefits of this coverage. In response to a Congressional request, the Congressional Research Service developed five alternative designs for the new plan, each structured to maintain the total employer normal cost of the entire retirement program (including the cost of social security coverage) at its current level.[20] All five of the proposals require lower CSRS contributions and benefits for the newly covered workers than those provided for federal employees not covered by social security. Thus, payroll taxes paid by the federal government to the OASDHI trust funds represent an inescapable portion of the cost of employing federal workers. Since the Treasury would have had to finance accruing benefit obligations through the CSRS in the absence of social security coverage, these transfers should be included with the direct activities of the trust funds when assessing the impact of OASDHI on federal finances.

b) Contributions for military wage credits: Members of the armed forces have been regular contributing members of the social security system since 1957; before that time, various special provisions provided for gratuitous wage credits that entitled military personnel to benefits and, in particular cases, entitled their survivors to survivors' benefits. Current members of the armed forces pay regular payroll taxes on earnings and, in addition, are given

noncontributory wage credits for each quarter of military employment after 1956. These credits, in effect, raise the average monthly earnings used in the computation of monthly and lump-sum retirement payments by taking into account up to $300 per quarter of remuneration in kind.

Until 1983, payments from the Treasury to the trust funds to finance noncontributory military wage credits were made as the benefits became due. The Treasury transferred annual level payments, amortized to 2015, to the trust funds to finance current benefit obligations arising from noncontributory credits for service before 1957. In addition, the Treasury made annual variable payments to cover the current cost of benefits and administrative expenses arising from such credits granted after 1956.

The 1983 Social Security Amendments changed the financing basis of all noncontributory wage credits for military service. In May 1983, the existing amortized payment schedule for credits resulting from service before 1957 was replaced by immediate, full payment by the Treasury to the OASDHI trust funds of the present value of all future benefits arising from these credits. The Treasury also transferred to OASDHI an amount equivalent to the combined employer-employee OASDHI taxes, plus interest, on the noncontributory credits for the period 1957-83. Since the amount of the former payment was determined on an estimated basis, periodic adjustments will be required to assure that the Treasury accurately reimburses the trust funds for the cost of providing these benefits; the adjustments will be made in fiscal 1986 and every fifth year thereafter. The trust funds are now reimbursed annually for the OASDHI employer-employee taxes on all noncontributory wage credits for military service.

Transfers from the general fund for military-service wage credits represent contributions from the federal government, made as employer of military personnel, to finance future benefit obligations that arise from that employment. Since such a large portion of military pay is provided by remuneration in kind, these wage credits are necessary in order for the federal government to provide military service personnel with an adequate level of social security benefits. Thus, these transfers are analogous to payroll taxes paid by employers and therefore should be included along with the direct activities of OASDHI when evaluating the impact of social security on federal finances.

c) Other intragovernmental receipts: The Social Security Amendments of 1983 contained a provision designed to treat the self-employed in much the same manner as employees and employers are treated for payroll and income tax purposes. Before 1984, the total OASDHI contribution rate faced by the self-employed was approximately 75 percent of the combined employer-employee rate. The 1983 Amendments raised the self-employed payroll tax rate to the combined employer-employee rate beginning in 1984, and provided self-employed individuals with an income tax deduction equal to one-half of their total payroll tax contribution beginning in 1989. This deduction parallels the present provision which allows employers to deduct as a business expense the payroll taxes they pay on their employees' wages. During the transition period between 1984 and 1989 when the deduction becomes available, the self-employed will contribute payroll taxes at a rate lower than the combined employer-employee rate.

In 1984, self-employed persons were allowed a payroll tax credit of 2.7 percent of covered wages and thus contributed 11.3 percent instead of the scheduled 14.0 percent. They will receive similar credits of 2.3 percent for 1985 and 2.0 percent for 1986-89. From 1984 to 1989, however, appropriations from the Treasury to the OASDHI trust funds are based on the full employer-employee tax rates that apply in each year. As a result, in fiscal 1986 the Treasury will transfer approximately $2 billion to the OASDHI trust fund to compensate for the revenue loss to the trust funds associated with the difference between payroll tax rates applicable to the self-employed and the combined employer-employee rate.

OASDHI earnings credits will accrue in each year between 1984 and 1989 as if payroll taxes had been contributed according to the full scheduled employer-employee contribution rate. Hence, these transfers should be included with the direct activities of the trust funds when assessing the impact of OASDHI on federal finances.

II. Intragovernmental Outlays

a) Payments to the Railroad Retirement Account: The Railroad Retirement Act of 1974 provides for a system of coordination and financial interchange between the Railroad Retirement program and the OASDHI programs. Under provisions of this Act, transfers between the Railroad Retirement Account and the trust funds are made annually in order to place each trust fund in the same position in which it would have been if railroad employment had always been covered under social security. In 1986, OASDI will transfer approximately $2.3 billion to the Railroad Retirement Account and the Railroad Retirement Account will transfer $300 million to HI, resulting in a net payment by OASDHI of approximately $2.0 billion. Since these funds represent reimbursement for benefits paid by the Railroad Retirement Account to private citizens, they are traditionally treated as direct expenditures of the OASDHI trust funds when assessing the contribution of OASDHI to the federal budget.

b) Interest on normalized transfers: Before 1983, payroll taxes collected by the federal government were transferred to the trust funds immediately upon receipt. Beginning in May 1983, estimated total collections for each month are credited to the trust funds on the first day of the month.[21] As the actual collections are received during the month, they are deposited in the general fund of the Treasury. The trust funds reimburse the Treasury for the interest costs attributable to these advance transfers.

OASDI will pay approximately $1 billion in interest costs attributable to advance tax transfers in 1986. Without advance transfers from the Treasury, the social security trust funds might be required to look elsewhere for a source of advance revenues if trust fund balances were too low to meet benefit payments, which are generally made in the early part of each month. Similarly, the Treasury would be free to use the money involved in the advance transfer for other purposes. Thus, the interest costs associated with this transaction represent a legitimate expense of OASDI and should be included with direct OASDHI expenditures when assessing the impact of the social security trust funds on the federal budget.

Appendix B

Deficits and Surpluses of the Social Security Trust Funds, Other Federal Programs, and the Unified Budget, Fiscal Years 1937–1986[a]

Billions of Dollars

Fiscal Year	Social Security		Other Federal Programs		Unified Budget
	Without Intragovernmental Transactions	With Intragovernmental Transactions	Without Intragovernmental Transactions	With Intragovernmental Transactions	
1937	.5	.5	−3.0	−3.0	−2.8
1938	.4	.4	−1.6	−1.6	−1.2
1939	.5	.5	−4.4	−4.4	−3.9
1940	.5	.8	−3.4	−3.5	−2.9
1941	.6	.7	−5.5	−5.6	−4.9
1942	.8	.8	−21.3	−21.3	−2.5
1943	1.0	1.0	−55.5	−55.6	−54.6
1944	1.1	1.2	−48.6	−48.7	−47.8
1945	1.0	1.2	−48.3	−48.4	−47.3
1946	.9	1.0	−16.8	−17.0	−15.9
1947	1.0	1.2	2.6	2.4	3.6
1948	1.1	1.2	10.7	10.5	11.8
1949	1.0	1.3	−.4	−.7	.8
1950	1.3	1.6	−4.3	−4.6	−3.0
1951	1.6	1.8	4.6	4.3	6.1
1952	1.5	1.9	−3.0	−3.4	−1.5
1953	1.4	1.8	−7.9	−8.3	−6.5
1954	1.2	1.7	−2.4	−2.8	−1.2
1955	.6	1.1	−3.6	−4.1	−3.0
1956	.9	1.5	3.0	2.5	3.9
1957	1	.8	3.3	2.6	3.4
1958	−.2	.5	−2.6	−3.3	−2.8
1959	−1.4	−.7	−11.4	−12.1	−12.8
1960	−1.0	−.2	1.3	.5	.3
1961	−.4	.4	−2.9	−3.8	−3.3
1962	−2.1	−1.3	−5.1	−5.9	−7.1
1963	−1.6	−.8	−3.1	−4.0	−4.8
1964	−.3	.6	−5.6	−6.5	−5.9
1965	−.7	.2	−.7	−1.6	−1.4
1966	−.8	.2	−2.9	−3.9	−3.7
1967	2.7	4.5	−11.4	−13.1	−8.6
1968	.8	2.7	−25.9	−27.8	−25.2
1969	1.3	4.3	1.9	−1.1	3.2
1970	3.0	6.5	−5.8	−9.4	−2.8
1971	−.7	3.4	−22.3	−26.5	−23.0
1972	−1.3	2.8	−22.1	−26.2	−23.4
1973	−2.2	2.0	−12.7	−16.9	−14.9
1974	.6	5.4	−6.7	−11.5	−6.1
1975	−1.5	4.0	−51.8	−57.2	−53.2
1976	−8.0	−2.3	−65.7	−71.5	−73.7
1977	−8.9	−3.7	−43.8	−49.9	−53.6
1978	−9.6	−3.6	−49.4	−55.4	−58.0
1979	−6.4	−.4	−33.7	−39.7	−40.2
1980	−6.3	0	−67.5	−73.8	−73.8
1981	−8.3	−1.4	−70.9	−77.5	−78.9
1982	−13.0	−5.2	−113.0	−122.8	−127.9
1983	−27.8	6.0	−179.9	−213.6	−207.8
1984	−11.6	3.7	−173.7	−189.0	−185.3
1985	−5.3	8.7	−217.0	−231.0	−222.2
1986	5.4	22.7	−185.4	−202.7	−180.0

Note: Totals may not add due to rounding.

[a] Social security includes the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) trust funds.

Source: 1981 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*; 1985 *Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund*; *Historical Tables, Budget of the United States Government, Fiscal Year 1986* (GPO, 1985), and author's calculations.

[1] Before 1940, social security was financed through a special "Old-Age Reserve Account" in the Treasury. Appropriations were made to this account from payroll tax revenues received by the Treasury net of administrative expenses. After the social security program was declared constitutional in 1937, it was no longer necessary to maintain an implicit separation between the tax and benefit activities. As a result, the 1938 Advisory Council advocated the establishment of a trust fund for the OASI program, which would receive automatic appropriations from the Treasury. This recommendation was adopted in the 1939 Amendments.

[2] Medicare is composed of two parts—hospital insurance (HI), which pays for inpatient hospital care, limited stays in skilled nursing facilities, and home health services, and supplementary medical insurance (SMI), which pays for physicians' and hospital outpatient services. The programs are financed through separate trust funds, each with a distinct source of revenue. Hospital insurance is financed by earmarked payroll taxes in a manner similar to the OASI and DI programs. SMI derives its income from premiums paid by participants and from general revenues. Hence, SMI will be excluded from the definitions of medicare and social security as they are used throughout this article.

[3] As a result of the 1983 Amendments to the Social Security Act, the Treasury began transferring the estimated amount of each month's payroll tax receipts to the OASI, DI and HI trust funds at the beginning of the month. Before this legislation, payroll tax receipts were transferred to the trust funds as they were received. The Deficit Reduction Act of 1984 reinstated the traditional practice for the HI trust fund, although OASI and DI will continue to receive transfers on the first day of the month.

[4] For more detail about these alternative budget concepts, see *The Budget of the United States Government, Fiscal Year 1969* (Government Printing Office, 1968), Special Analysis A, pp. 464-472.

[5] See "Shaping a Simpler Budget," reprinted from *Business Week*, August 5, 1967, and Eileen Shanahan, "Major Revisions in Budget Asked to End Confusion," reprinted from *The New York Times*, October 8, 1967, both in James W. Davis, Jr., ed., *Politics, Programs, and Budgets* (Prentice-Hall, 1969), pp. 16-27.

[6] *Report of the President's Commission on Budget Concepts* (GPO, 1967).

[7] For a complete legislative history of the budgetary treatment of the social security trust funds, see David Koitz, "Social Security and the Unified Budget" (Congressional Research Service, March 1984), mimeo, pp. CRS-5 to CRS-10. The following discussion draws very heavily on Koitz' study.

[8] The Administration's May 1981 proposals would have reduced long-run costs by 2.86 percent of taxable payrolls, based on the central "Alternative II" economic and demographic assumptions underlying the 1980 Trustees' *Report*. The long-run deficit as reported by the system's Trustees under these same assumptions amounted to only 1.52 percent of taxable payrolls. Hence, the proposed reductions of 2.86 percent exceeded the projected deficit of 1.52 percent by 1.34 percent of taxable payrolls or 88 percent. The 1981 Trustees' *Report*, issued on July 2, 1981, revealed a somewhat larger long-run deficit, equal to 1.82 percent of taxable payrolls. The Administration's proposed reductions exceeded even this updated estimate of the long-run deficit by 57 percent.

[9] The major provisions of the 1981 Amendments were the introduction of interfund borrowing among the social security and hospital insurance trust funds and the restoration of the minimum benefit for current beneficiaries.

[10] A majority of the members of the National Commission recommended that the OASI, DI, HI, and SMI trust funds be removed totally from the budget. A modified version of this recommendation, which called for the OASI, DI, HI and SMI trust funds to be displayed more prominently in the unified budget until fiscal 1988 and then for the OASI, DI, and HI trust funds to be removed totally from the budget process thereafter, was incorporated into the social security legislation that passed the House in March 1983. The final version of the bill, which delayed the date for taking social security out of the budget until fiscal 1993, represented a compromise between the House and the Senate. For further information, see *Report of the National Commission on Social Security Reform* (GPO, January 1983), pp. 2-24 and 2-25; and John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin*, Vol. 46, July 1983, pp. 3-48.

[11] See Koitz, "Social Security and the Unified Budget," pp. CRS-19 to CRS-21 and U.S. Social Security Administration, Office of the Actuary, Steven F. McKay, "Comparison of Trust-Fund Accounting Versus Unified-Budget Accounting," February 7, 1985, Memorandum.

[12] David Koitz of the Congressional Research Service argues that the weakness with the proposed approach is the assumption that other federal spending and income decisions were developed in isolation from the financial operations of the social security programs. He questions whether the New Deal spending policies in the late 1930s ignored the receipts flowing into the social security program or whether World War II taxation policy would have been the same without the surpluses in the social security trust funds. Koitz concludes that the social security program has had a threefold effect on government finances; the surpluses have not only reduced government borrowing in the private sector as argued in this article, but they have also allowed non-social security taxes to be somewhat lower and permitted spending to be somewhat higher than they otherwise would have been. Since it is impossible to know the relative magnitude of each of these effects, Koitz believes that focusing on the direct activities of the trust funds provides a more reliable indicator of the program's impact on the unified budget. These views were expressed in a detailed response to an earlier draft of this article.

[13] The main arguments for and against including social security in the federal budget are summarized in Koitz, "Social Security and the Unified Budget." For further discussion, see Robert M. Ball, *Social Security Today and Tomorrow* (Columbia University Press, 1978), pp. 308-310; *Social Security in America's Future: Final Report, National Commission on Social Security* (GPO, March 1981), pp. 306-307 and 356-358; Robert J. Myers, "Inclusion of Operations of Social Security and Medicare Trust Funds in the Unified Budget," Memorandum No. 53, National Commission on Social Security Reform, September 1982, mimeo; and *Report of the National Commission on Social Security Reform*, pp. 2-24 and 2-25.

[14] Staff paper, "Coverage of the Budget," in President's Commission on Budget Concepts, *Staff Papers and Other Materials Reviewed by the President's Commission* (GPO, 1967), pp. 161-169.

[15] The United States Supreme Court in 1960 (Flemming v Nestor, 363 US 603, 1960) said that "The social security system may be accurately described as a form of social insurance, enacted pursuant to Congress' power to spend money in aid of the 'general welfare.'" However, the Court went on to say that the rights of a beneficiary "cannot be soundly analogized to that of a holder of an annuity whose right to benefits is bottomed on his contractual premium payments."

[16] The precise date at which the accumulation ceases and the drawing down of assets begins can be defined in three ways. In nominal terms, even though outlays exceed tax income after 2015, fund assets continue to grow until 2030 as a result of interest income and the drawing down of trust fund assets occurs after 2030. If income and outlays are expressed in constant dollars or as a percent of GNP, then interest enables the fund to continue growing for only five years after outlays exceed tax income and the value of fund assets declines after 2020. Since the size of the trust fund relative to GNP offers the most relevant indicator of the impact of trust fund behavior on the economy, this measure will be used in the following discussion. For the data underlying these

figures, see U.S. Social Security Administration, Office of the Actuary, Harry C. Ballantyne, A.S.A., *Long-Range Estimates of Social Security Trust Fund Operations in Dollars*, Actuarial Note 125, May 1985.

[17] It seems fair to say that the Congress did not deliberately seek to have the system accumulate reserves, but rather this development was the largely inadvertent product of a 1977 plan to restore financial solvency to the program over a 75-year period and a minor modification of that plan contained in the 1983 Amendments. These amendments produced the accumulation by accelerating a scheduled 2011 tax rate increase to 1988 and 1990, so that taxes are raised just as social security costs relative to taxable payroll are slated to decline.

[18] For a detailed discussion of the possible implications of accumulating large social security surpluses, see Alicia H. Munnell and Lynn E. Blais, "Do We Want Large Social Security Surpluses?" *New England Economic Review*, September/October 1984, pp. 5-21.

[19] A bill (S.724) that would accelerate the removal of the OASDHI trust funds from the federal budget process was introduced on March 20, 1985 by Senators Paula Hawkins, Daniel Moynihan and Donald Riegle. Under this legislation, which is currently pending before the Committee on the Budget and the Committee on Governmental Affairs of the United States Senate, the social security trust funds would be reported separately from the rest of the federal budget beginning in fiscal 1987.

[20] *Designing a Retirement System for Federal Workers Covered by Social Security*, prepared by the Congressional Research Service for the Committee on Post Office and Civil Service of the U.S. House of Representatives (GPO, 1985).

[21] Beginning in August 1984, advance transfers of HI tax receipts were discontinued.

APPENDIX 4—THE PROJECTED FINANCIAL STATUS OF THE SOCIAL SECURITY AND HOSPITAL INSURANCE TRUST FUNDS, 1984-94

Estimated operations of the OASI, DI, and HI Trust Funds under present law on the basis of the 1985 Trustees Report alternative II-B assumptions, fiscal years 1984-94

(Amounts in billions)

Fiscal year	Income					Outgo					Interfund borrowing transfers 1/		
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	HI
1984	$160.7	$17.7	$178.5	$45.6	$224.0	$159.8	$18.4	$178.2	$42.1	$220.3	---	---	---
1985	179.5	17.8	197.3	51.0	248.3	170.9	19.9	190.8	48.9	239.7	-$4.4	$2.5	$1.8
1986	192.8	18.8	211.6	57.5	269.1	181.3	20.3	201.6	49.6	251.3	-7.5	2.5	5.0
1987	209.9	20.3	230.2	63.7	293.9	194.9	21.2	216.2	54.3	270.5	-5.6	---	5.6
1988	239.9	22.8	262.7	69.7	332.3	210.3	22.5	232.8	60.4	293.2	---	---	---
1989	264.1	24.9	288.9	74.8	363.8	226.2	23.9	250.1	66.8	316.9	---	---	---
1990	289.9	29.3	319.2	80.4	399.5	243.2	25.3	268.5	73.7	342.2	---	---	---
1991	313.9	32.6	346.6	85.5	432.1	259.5	26.8	286.3	81.2	367.5	---	---	---
1992	335.9	35.0	370.9	90.1	461.0	276.2	28.5	304.6	88.9	393.5	---	---	---
1993	367.4	37.9	405.3	95.8	497.1	293.6	30.4	324.0	97.3	421.3	---	---	---
1994	390.8	40.8	431.6	101.1	532.7	312.0	32.5	344.5	106.3	450.8	---	---	---

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year2/				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1984	$0.9	-$0.6	$0.3	$3.5	$3.7	$27.6	$4.6	$32.2	$17.2	$49.4	23%	35%	24%	33%	25%
1985	4.2	.5	4.7	3.9	8.7	31.8	5.1	36.9	21.1	58.0	22	28	23	35	25
1986	7.9	1.0	5.0	12.9	17.8	35.7	6.2	41.9	34.0	75.9	24	31	25	43	28
1987	9.7	-1.0	8.4	15.0	23.3	45.1	5.2	50.3	48.9	99.2	25	35	26	63	33
1988	29.6	.3	29.9	9.3	39.2	74.6	5.5	80.1	58.2	138.4	28	29	28	61	39
1989	37.9	1.0	38.9	8.0	46.9	112.5	6.5	119.0	66.3	185.3	40	30	39	87	49
1990	46.6	4.0	50.6	6.7	57.3	159.1	10.5	169.6	73.0	242.6	53	32	52	90	60
1991	54.4	5.8	60.3	4.3	64.6	213.6	16.3	229.9	77.3	307.2	69	47	67	90	72
1992	59.7	6.5	66.2	1.2	67.4	273.3	22.8	296.1	78.5	374.6	85	65	83	87	84
1993	69.8	7.5	77.3	-1.5	75.8	343.1	30.3	373.4	77.0	450.4	101	83	99	81	95
1994	78.8	8.3	87.1	-5.2	81.9	421.9	38.6	460.5	71.8	532.3	117	101	116	72	106

1/ Positive figures represent repayments of amounts owed by other trust funds. Negative figures represent repayments of amounts owed to other trust funds.

2/ Assets at beginning of year are defined for the OASI and DI Trust Funds as assets at end of prior year plus the respective OASI and DI advance tax transfers for October.

Social Security Administration
Office of the Actuary
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